

AT-HOME BUSINESS OPPORTUNITY SCAMS

Y 4. G 74/9: S. HRG. 103-238

At-Home Business Opportunity Scams, ...

HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATION AND
GOVERNMENT INFORMATION

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

JULY 28, 1993

Printed for the use of the Committee on Governmental Affairs



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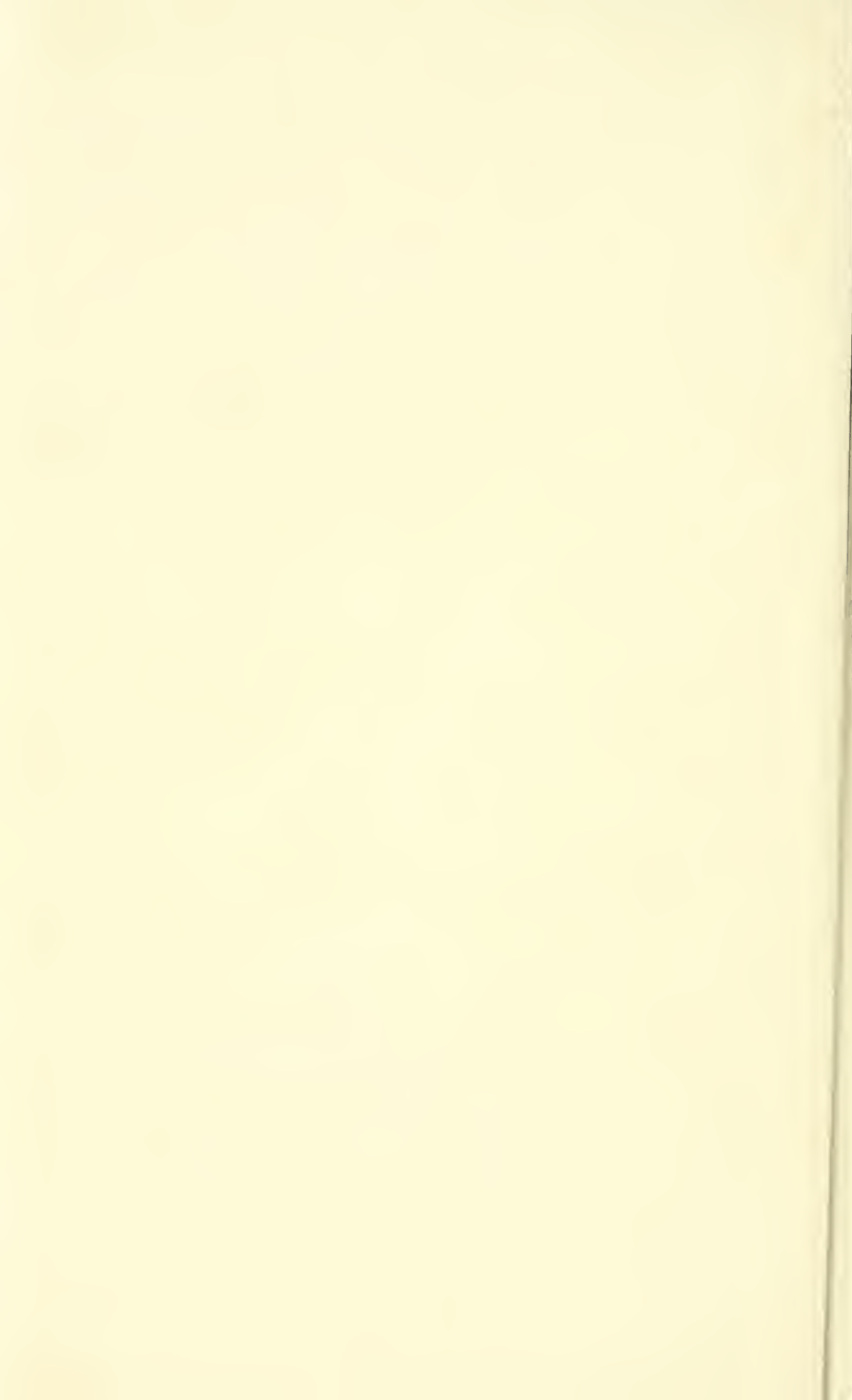
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(II)

CONTENTS

Opening statements:	Page
Senator Lieberman	1

WITNESSES

WEDNESDAY, JULY 28, 1993

James H. McIlhenny, President, Council of Better Business Bureaus, Inc	3
Kimberly Cole, Hurlock, MD	7
George Matthews, Hurlock, MD	9
Bernard Rooney, Alexandria, VA	10
Richard A. Barton, Senior Vice President, Governmental Affairs, Direct Marketing Association	15
Alvin F. Lamden, Manager, Fraud and Prohibited Mailings, U.S. Postal Inspection Service; accompanied by Jennifer Angelo, Chief Counsel for Consumer Protection, U.S. Postal Inspection Service	21

ALPHABETICAL LIST OF WITNESSES

Barton, Richard A.:	
Testimony	15
Prepared statement	37
Cole, Kimberly:	
Testimony	7
Lamden, Alvin F.:	
Testimony	21
Prepared statement	39
Matthews, George:	
Testimony	9
McIlhenny, James H.:	
Testimony	3
Prepared statement	29
Rooney, Bernard:	
Testimony	10

APPENDIX

Prepared statements of witnesses in order of appearance	29
At-home business opportunity ads	44

AT-HOME BUSINESS OPPORTUNITY SCAMS

WEDNESDAY, JULY 28, 1993

U.S. SENATE,
SUBCOMMITTEE ON REGULATION AND
GOVERNMENT INFORMATION,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:05 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Subcommittee, presiding.

Present: Senators Lieberman, Dorgan, and Cochran.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Good morning and welcome to this hearing of the Subcommittee on Regulation and Government Information.

Today we are going to examine a business scam that is fast becoming one of the top money traps facing the average American consumer. Each year millions of Americans buy into newspaper and magazine advertisements that guarantee them easy money for work that they can do at home, only to find that their pockets are being picked, not lined. By some estimates, these work-at-home scams, as they are commonly known, are fleecing people out of a half a billion dollars a year.

The United States Postal Inspection Service tells us that virtually all of these work-at-home operations are frauds, and I want to stress that. The Postal Inspection Service says that virtually every one of these work-at-home operations is a fraud. The con artists who place these ads offering thousands of dollars for people to do work at home uniformly require the consumer to pay money up front for supplies or information that deliver little, if anything, in the form of income. When a consumer complains, the con artist disappears behind a wall of small print and technicalities.

The Council of Better Business Bureaus of America will be revealing this morning, for the first time, the results of a survey that document just how prevalent these fraudulent work-at-home operations are. The survey shows that work-at-home companies now rank number one in complaints received from Better Business Bureaus coast to coast. The Council survey also supports this conclusion: As the economy continues to lag, the appeal of work-at-home schemes continues to gain strength.

With many Americans being forced to make do with less because of layoffs, fixed incomes, crushing student loans, and a host of other pressures, it is not surprising that so many people succumb to pitches that sound too good to be true. The fact that these ads

appear in respectable publications that people inherently trust only makes matters worse by conferring a legitimacy that they don't deserve.

We have some examples on display here of fraudulent ads which, unfortunately, can easily be found in popular newspapers and magazines with national circulations.

The most common group of people attracted to these ads, the Better Business Bureau study shows, are mothers who want to work at home. These are women who need to supplement their one-salary family incomes, and view the work-at-home offers as an attractive and convenient opportunity.

Indeed, what makes these work-at-home scams especially insidious is that they prey on vulnerable Americans who want to work. Along with young mothers, work-at-home scams also target the elderly, the unemployed, the underemployed, and the disabled.

The con artists who promote work-at-home scams have one other important factor working for them besides the sorry state of our economy, and that is the lack of a uniform, comprehensive, national crackdown by law enforcement officials. It is extremely difficult to track, close down, and bring these rogue companies to justice, as officers of the Postal Inspection Service will testify today. And because most consumers end up getting taken for a relatively small amount of money, U.S. attorneys are rarely willing or able to get involved, nor do local law enforcement agencies. According to the Better Business Council, only 23 percent of the bureaus responding to their survey reported any law enforcement actions taken against work-at-home scams in their area, despite the fact that 93 percent of the bureaus around the country have received complaints about these scams.

The Postal Inspection Service has been quite successful in using civil remedies to shutdown these businesses, apparently closing down 3,500 of them in one 12-month period. But civil action is not a permanent remedy. These companies are incredibly resilient, and quickly sprout up again in one area after being shut down in another.

I hope this hearing will educate the public about the dangers posed by these work-at-home scams by exposing their standard mode of operation. Our message to consumers is this: If you are looking for extra money, stay away from work-at-home scams. Otherwise, your income will unfortunately soon be outgoing.

We also want to explore today how Government and especially law enforcement personnel can work with the consumer to block these work-at-home scams from exploiting those who can least afford to lose money. We are going to hear from the Council of Better Business Bureaus President James McIlhenny, who will be presenting the results of the Council's survey of work-at-home companies.

As Mr. McIlhenny will tell us, these schemes call for a wide variety of tasks, including assembling products such as earrings, picture frames, and toys. Consumers usually pay outrageously inflated costs for kits that include the components that they are supposed to use. Then once they send back the toys, for instance, that they assemble or the booties that they knit, the work-at-home companies typically reject the products as defective.

Some consumers have lost thousands of dollars on these schemes, but the average victim gets taken for about \$40. Now, that may not seem like a lot of money, but to the hard-pressed family, it is a lot. And, of course, it is also a heartbreak and an embarrassment as well.

When you add it up, from the point of view of the work-at-home scam artists, it is a multimillion-dollar ripoff of the American people. These are not people who want something for nothing, the folks who are responding to these advertisements. They are decent people who want to work and whose circumstances make them susceptible to work-at-home schemes.

We are going to be hearing from three such consumers today who were victimized, and we are particularly grateful to them for coming in because they can tell us firsthand about the traps involved here. Then we will hear from Richard Barton, an executive from the Direct Marketing Association, which is an industry group representing legitimate companies that sell products by mail. Lastly, we are going to hear from Alvin Lamden and Jennifer Angelo of the Postal Inspection Service, who will testify about the Service's experience in fighting these work-at-home operations. They will also provide us with some insight into how best to curb their growth.

I appreciate very much the presence of all witnesses, and now I would call first on our first panel, which is composed of Mr. McIlhenny from the Council of Better Business Bureaus, Kimberly Coles, George Matthews, and Bernard Rooney.

Mr. McIlhenny, why don't you begin.

Mr. McILHENNY. I will.

Senator LIEBERMAN. Thank you again for being here, and thanks for what you do for consumers throughout this country.

**TESTIMONY OF JAMES H. McILHENNY,¹ PRESIDENT, COUNCIL OF
BETTER BUSINESS BUREAUS, INC.**

Mr. McILHENNY. Thank you. Good morning, Mr. Chairman. My name is James McIlhenny, and I am president of the Council of Better Business Bureaus. To my right is Holly Cherico, who is our director of Public Affairs and has been instrumental in developing much of the information I will be discussing.

Let me begin by applauding you, Senator Lieberman, for calling public attention to the growing problem of work-at-home scams. These scams take advantage of the eagerness of people to earn money by doing work at home. Folks attracted to these offers are, by and large, willing to do honest work for honest pay. They just find it difficult, sometimes impossible, to hold a job outside their home because of family obligations, health considerations, or lack of education.

Too often work-at-home scams are dismissed as petty nuisances. Bureaus report that the amount of money lost by a work-at-home victim ranges anywhere from \$5 to hundreds of dollars, with the average, as you said, hovering around \$40. That doesn't seem like a significant amount of money, but it can represent a week's worth

¹ The prepared statement of Mr. McIlhenny appears on page 29.

of groceries to a victim. And it is not unusual for a person to fall victim to two or three or four such scams before they finally realize that they are not going to receive actual employment from such offers.

A nationwide investigation by the Council of Better Business Bureaus in 1980 of 55 work-at-home promotions revealed that consumers who wanted to supplement their income by investing in work-at-home opportunities were losing their money to unscrupulous promoters. It is now 13 years later, and the situation today, unfortunately, is much the same, or worse.

Work-at-home companies receive the largest number of inquiries of any type of business—and if I may, sir, it is important to stress the word “inquiries.” Inquiries are calls made by people who want to know something about a company or business. Somebody gave you the information that work-at-home companies receive the largest number of “complaints.” It is the number of inquiries that led to work-at-home companies being ranked number one.

Senator LIEBERMAN. I appreciate that clarification.

Mr. McILHENNY. It was our error, I am sure.

Work-at-home companies received the largest number of inquiries—more than 176,000—of any of the 327 types of businesses included in the Council of Better Business Bureau's 1992 Annual Inquiry and Complaint Summary. It is more than any of the other businesses. The work-at-home category has ranked among the top 10 most-asked-about businesses for the past 5 years. The past 3 years alone have witnessed a significant leap of 20 percent in the number of inquiries.

A special survey conducted by the Council of Better Business Bureaus this spring found Better Business Bureaus across the Nation reporting that work-at-home schemes now account for their largest or fastest growing category of inquiries. In fact, most BBB's are forecasting that 1993 inquiry totals will exceed last year's totals, and we have provided separate information for you in our report on that.

You will note from the report a State-by-State breakdown that shows that work-at-home promotions are prevalent across the Nation. Better Business Bureaus from every geographic area reported that these misleading advertisements are attracting unsuspecting consumers.

Why are we so concerned about work-at-home schemes? The Council of Better Business Bureaus promotes ethical standards of business practices and protects consumers through voluntary self-regulation and monitoring activities. We have a very strong grassroots presence in the world of consumer protection.

The entire Better Business Bureau system is supported through membership of private businesses. We are not a Government agency, and our consumer-oriented programs are not supported by tax dollars. Council of Better Business Bureau members include major businesses and 170 Better Business Bureaus and branches in the United States. And those 170 Bureaus are supported by almost a quarter of a million businesses interested in an ethical marketplace.

Folks who receive offers by phone or mail, offers that sound too good to be true and are from companies they have never heard of,

usually turn first to the Better Business Bureau for help and for information. Bureau staff members have become all too familiar with the scam artists who prey on the unsuspecting public.

Work-at-home schemes are a perennial. They never quite go away. Such schemes appear, disappear, and reappear periodically to bilk a fresh group of consumers.

What is more, our survey results tell us that such schemes are not likely to go away any time soon. When Better Business Bureaus were asked why work-at-home schemes continue to proliferate, the cause most frequently cited was the uncertain economy and continuing unemployment. Other reasons why these schemes continue to be a problem, according to our Bureaus, are: the lure of easy money; a popular belief that what is printed in the newspaper must be true; the fact that publications continue to accept these misleading advertisements; and the lack of Government enforcement at any level.

Several Better Business Bureaus attributed the continued success of these fraudulent companies to consumers who do not complain or seek refunds. Consumers often write off the amount of their loss as insignificant; they may be too embarrassed to admit being taken.

Each of these causes needs to be addressed if we are to make headway against these scams. And as much as we would like to, we of the Better Business Bureau system can't crack down on these crooks by ourselves. We must work together with other interested parties—law enforcement, publishers, consumer groups, senior citizen associations, and everyone—to convince the public that work-at-home promotions do not offer real jobs.

I have brought with me today a few complaint letters local Better Business Bureaus received from people cheated by work-at-home scams. The vast majority of work-at-home offers are for stuffing envelopes. In fact, 96 percent of the Bureaus that responded to our survey regularly advise consumers on the pitfalls of envelope-stuffing opportunities.

The second most popular work-at-home "job," as reported by 58 percent of the Better Business Bureaus, was product assembly. Assembly offers include assembling circuit boards, making hair bows, baby bibs, Christmas ornaments or stuffed animals, painting novelty items, guitar-stringing assembly, and even offers to process medical claims on your home computer.

Other popular types of work-at-home scams reported by the BBB's include tracing unclaimed Government funds, reading books for pay, taking photographs or videos for pay, and selling lists and directories of work-at-home opportunities.

Our survey reveals that the two largest groups victimized by scams are stay-at-home mothers and the elderly. Other groups like to be duped by work-at-home offers include college students, persons with disabilities, the unemployed, and low-income families. Several BBB's noted that victims of such scams include full-time workers who are searching for ways to supplement their income.

Our survey asked Better Business Bureaus how consumers hear about work-at-home opportunities. Ninety-three percent of the Bureaus report that such offers appear in classified ads, most often in free weekly newspapers or "shopping" newspapers. However,

BBB's often cite legitimate, respectable newspapers and periodicals that run misleading work-at-home ads. Many Bureaus noted that most classified work-at-home ads are not placed by local companies. Instead, companies advertise in States other than where they are located to escape the scrutiny of local law enforcement agencies.

Other methods of promotion include direct mail, cable television, and directories of work-at-home opportunities.

Some scam artists now use bulletin boards in grocery stores, cafeterias, and laundromats to avoid mailing out work-at-home offers. That way they can avoid the scrutiny of the U.S. Postal Service.

Work-at-home schemes are easy to spot, but hard to stop. Better Business Bureaus routinely bring such scams to the attention of law enforcement agencies. But our survey results show that despite receiving thousands of inquiries and complaints annually, law enforcement officials rarely crack down on the operators that run the scams because the amount of money is seemingly insignificant.

Only 23 percent of the BBB's reported any actions by law enforcement agencies. In most cases, crackdown efforts were made by the U.S. Postal Inspection Service, distantly followed by State attorneys general, the Federal Trade Commission, and local district attorney offices.

Better Business Bureaus also attempt to combat such schemes with information. We preach, "Investigate before you invest." The BBB issues millions of reliability reports on work-at-home and other businesses and attempts to educate the public through pamphlets, news release warnings, radio and TV appearances, speeches before business and community groups, newsletters to member businesses, and—thank you—this opportunity as well.

BBB's urge those victimized by work-at-home offers to file a complaint. Remaining silent only allows others to be victimized by the same scam. Better Business Bureaus report that they are sometimes, but not always, effective in helping victims receive their money back. Our experience shows that companies that offer product assembly jobs are more responsive to complaints when presented to them than companies that offer envelope-stuffing opportunities.

As I mentioned, it is not unusual for even the most respectable newspapers and magazines to run ads for work-at-home schemes. Publishers have the power to block such advertisements, but only a few do. Many BBB's offer help to local publications to check out the legitimacy of such offers before publication.

Not too long ago, Ann Landers ran a column reciting the experience of a 73-year-old man who had been "taken" by a work-at-home scheme. Ms. Landers invited Better Business Bureaus to respond to her belief that BBB's aren't cracking down on these operators. Thankfully, she printed my response detailing on-going efforts by us to combat such schemes.

But I now receive several inquiries a week from readers of Ann Landers asking if I personally know of any legitimate work-at-home companies. While we forward such letters to BBB's which keep records on individual companies, I have to tell them and I have to say it is rare for any company that is on the "up and up" to employ a complete stranger to work from their home and ask

them to pay something for the privilege. So my simple answer is: no, there aren't any.

The best piece of advice I can offer to those interested in pursuing work-at-home opportunities is to carefully evaluate any such promotion and to check it out with the local Better Business Bureau to ascertain the reputation of the company. Consumers shouldn't assume that the offer doesn't warrant checking out because it involves only a small fee. That is the attitude that allows work-at-home scam artists to prosper.

Mr. Chairman, I commend you for focusing the attention of Congress on the ageless, timeless work-at-home scam. The Council of Better Business Bureaus will be pleased to assist you in evaluating how best to combat this serious problem. Our members want to see the consumer protected.

Thank you.

Senator LIEBERMAN. Thank you, Mr. McIlhenny.

I want to welcome the ranking member of the Committee, Senator Thad Cochran of Mississippi.

We will now go on with the three other witnesses who have been victims of these work-at-home schemes. I would like to begin with Kimberly Cole and ask you, Ms. Cole, just to describe in your own words what happened, how you got involved, and how it all ended up. Thanks for taking the time to be here. I know it is not easy to do that.

TESTIMONY OF KIMBERLY COLE, HURLOCK, MD

Ms. COLE. I was looking through the TV Guide, and in the back they have a classified section. They run it about once a month. And I saw it under "Business Opportunities" this Pace Corporation, and it said call and leave your name and number and your address, and it said you would get money for sending in names and addresses.

Senator LIEBERMAN. Let me take you back a little bit, just to indicate where you live.

Ms. COLE. Hurlock, Maryland.

Senator LIEBERMAN. In Maryland?

Ms. COLE. Yes.

Senator LIEBERMAN. And are you employed or unemployed?

Ms. COLE. I am employed, yes.

Senator LIEBERMAN. So this was a desire to make a little extra money at home?

Ms. COLE. Yes. It was around Christmastime last year, and so I figured it would help me out.

I called the number and, of course, it was an answering machine. You left your name and your number, and they told you that they would send you a brochure. A couple weeks later, I received a brochure, and I read it thoroughly. And I was always leery about sending in money to things that I have seen, but I read this and I figured, there was no way possible that it could be a gimmick.

Senator LIEBERMAN. What did the brochure ask you to do?

Ms. COLE. They wanted names and addresses. That is basically all they wanted, was just the names and addresses. There was no specific way to get them. You send it in. You were to get 50 cents for each name, and you sent in an initial fee of \$49.95. When you

sent in the 100 names, they would send you back 50 cents for each name plus double your money back, so it was supposed to be \$99.90 that I was supposed to receive back, plus 50 cents for each name.

I sent them 200 names and addresses, and so I waited, and I finally received something, and it wasn't what I expected it to be. They told me that the names and addresses I sent to them was not eligible for what they wanted it for. They wanted me to place an ad in the paper or in the post office or on a bulletin board, and it had something to do with either picture taking or cameras.

So I was upset, and——

Senator LIEBERMAN. So what did you understand to be the purpose of the list of names that they wanted at the outset? Were those other people who might work for them?

Ms. COLE. I guess they just wanted the names and the addresses. I guess they wanted them on their mailing lists.

Senator LIEBERMAN. Right.

Ms. COLE. Because they send out various types of information. But it wasn't what I expected it to be.

Senator LIEBERMAN. OK. So then they came back to you and said the list was inadequate, and they wanted you to do these other things they mentioned.

Ms. COLE. Yes. So I called them, and I actually got a person on the phone from the company, and I asked her, you know—I said I wasn't pleased with what I just received in the mail. I said, "This wasn't the same thing that you sent me the first time." Well, she tried to just shun me off by saying, "Well, you know, the first brochure was just like an introductory brochure." I said, "Well, you collected my \$49.95 on that one, and that is what I expected it to be." She said, "Well, no, it is not that. You have to place an ad." I said, "Well, what about the names I sent you?" She said, "Well, you have to write a request letter to get them back."

I figured if I wrote a request letter that they had probably already used those names and addresses. So I just didn't bother to do that. And I wanted my money back. I requested it back, and she told me no. And I said, "Why not? We haven't gone any further. You got your names and addresses." And she got very perturbed with me, and she bluntly told me, "No, you are not having your money back." And I told her, "Well, we will see about that when I contact the Better Business Bureau," and she hung up on me. And that was it.

So I contacted the Better Business Bureau here in Maryland, and they told me I had to contact the one in Chicago, Illinois.

Senator LIEBERMAN. Which was where this company was located?

Ms. COLE. They are located in Aurora, Illinois.

Senator LIEBERMAN. OK.

Ms. COLE. So I went through with the paperwork. I filled out my complaint form. I sent it in, and I think in February of this year I received my \$49.95 back.

Senator LIEBERMAN. Good for you. Congratulations on being persistent.

Mr. McIlhenny, I would guess that Ms. Cole was rare for having persisted in that way.

Mr. McILHENNY. Very rare, and I am glad to hear that the Better Business Bureau could be effective, because sometimes we can't get the money back.

Senator LIEBERMAN. OK. George Matthews is our next witness. Thanks again for coming in, and we look forward to hearing your story.

TESTIMONY OF GEORGE MATTHEWS, HURLOCK, MD

Mr. MATTHEWS. Basically, I contacted the same company that Ms. Cole contacted. She is my girl friend. But I didn't send in the money.

Senator LIEBERMAN. You did not send them the money?

Mr. MATTHEWS. No. I was one step ahead. [Laughter.]

Senator LIEBERMAN. Well, did you suspect something from the beginning?

Mr. MATTHEWS. Well, I always suspect any of the—I call them con artists.

Senator LIEBERMAN. Yes, but you were still going to give it a try?

Mr. MATTHEWS. Oh, yes. It looked very convincing. I am the type that is a very thorough reader, and I read it two or three times looking for clauses. And I saw none. It was just point blank you send in names and addresses and you got 50 cents per name, and that was all they told you.

My girl friend received a letter back from them, but it didn't give her a whole lot of details as of yet. But they left a number. Well, naturally, I took the number and made the call and questioned them. Well, I came up with the same thing—names and addresses. She had already sent her money off, so she was out as of then until she contacted the Better Business Bureau. So, naturally, that let me off the hook because I saw it was a scam. They basically told me that I needed to place an ad, and I said no, that is more expense and I can see where an ad would go nowhere.

Senator LIEBERMAN. What was the ad? The ad was going to be basically to repeat the ad that you had responded to?

Mr. MATTHEWS. No. We didn't even go to that extent. Once they told me that I had to place an ad, I said no, I am not interested, because I could see where I would have all the expense out and nobody might not answer the ad. But if it was just names and addresses, I could see a profit.

I have contacted various other ads such as the one that was discussed earlier, stuffing envelopes, which I followed it through. I think I paid something like \$39. I can't remember the exact company. It has been a year ago. And they sent a package of 100 printed envelopes. It was more or less almost like a chain type of thing where you mail other people envelopes, and it basically came right back to the original sender of the company. In other words, you would send them envelopes; you would make \$5 off of it, and they would make \$15. They would send the envelopes to them which had a printed surface on it, stating get free envelopes. And that was their stuffing letters, which basically was a dead end because I tried it and it didn't go anywhere. I just lost my money, period.

Senator LIEBERMAN. Yes.

Mr. MATTHEWS. And I didn't pursue it anymore.

Senator LIEBERMAN. You lost about \$40 there?

Mr. MATTHEWS. Somewhere around that figure, yes.

Senator LIEBERMAN. That is the most common scam, according to Mr. McIlhenny's testimony, this envelope-stuffing scheme. But basically what they sent you was not really envelopes to stuff; it was just material to send on to other people to try to get them involved. It was a kind of pyramid.

Mr. MATTHEWS. It was an envelope that you would put inside of an envelope. In other words, this was a plain, regular, office-type envelope.

Senator LIEBERMAN. I see.

Mr. MATTHEWS. It was almost like a Xerox-printed surface on it.

Senator LIEBERMAN. Right.

Mr. MATTHEWS. And that is what they were selling you and the people that would answer your ad or you could get a mailing list, and they would give you various companies that sold mailing lists, and you would have to buy the names—which I went to that point as to buy a thousand names, so I was out more money.

Senator LIEBERMAN. You did?

Mr. MATTHEWS. Oh, yes.

Senator LIEBERMAN. You bought the 1,000 names?

Mr. MATTHEWS. I bought the 1,000, and I still have the majority of them. I threw them in the trash.

Senator LIEBERMAN. How much did that cost you?

Mr. MATTHEWS. Oh, I am trying to remember. I think it was somewhere around in the neighborhood of \$50. I can't remember exactly.

Senator LIEBERMAN. Sounds about right. Are you employed or unemployed?

Mr. MATTHEWS. I am employed.

Senator LIEBERMAN. So here, again, this was an attempt to make a little extra money.

Mr. MATTHEWS. Right. That is correct.

Senator LIEBERMAN. Mr. Matthews, thanks for coming in and telling your story.

Senator LIEBERMAN. Bernard Rooney, welcome.

TESTIMONY OF BERNARD ROONEY, ALEXANDRIA, VA

Mr. ROONEY. Good morning, Senator.

My involvement began approximately a year ago, when I was in management consulting and I decided to leave that field and go back into the educational environment, and I accepted a science position at a local school near my home and my wife supported me in this. As a result, my income plummeted from about \$50,000 a year to the mid \$20s, and we both agreed that it would be appropriate for me to get into something else to supplement my income.

Shortly after that time, I received a packet of cards. In fact, these came yesterday in the mail, and I keep getting these things over the last year, and this one says—

Senator LIEBERMAN. You are on the list.

Mr. ROONEY. Yes, I am on many lists. It says, "Free inside, 60 ideas on starting and running your own business." Most of the things that I received were from companies advertising home busi-

nesses, and they would send information upon request. They did not ask for money. These do not usually ask for money, and that is how I started. I sent 10 cards back, but it did get me on other mailing lists. And I do not even know whether the two that I actually responded to came from the original 10 cards.

Since that time, I have received chain letters, and there is a group here for chain letters. There are other businesses on ways to save money. These are special reports that you can send for on how to make money, mail order envelope stuffing and starting your own business at home. A lot of these are network marketing as well as pyramid schemes.

What I ended up doing were two things I did receive, and they seemed pretty concrete, but they were just one-page fliers and they both involved stuffing envelopes. I sent \$25 to an E. Raynor, and he was in New York, but all I received back was a cancelled check and no business start-up materials. I believe from recollection that I should have received 500 envelopes to start out with.

Senator LIEBERMAN. The theory there was——

Mr. ROONEY. I would get 50 cents for each envelope.

Senator LIEBERMAN. —you would stuff them with something and return them to him?

Mr. ROONEY. Right, and get 50 cents for each envelope. I did call the Better Business Bureau in New York and, again, from my recollection they did say they had received a number of other complaints about Raynor from individuals who also had paid the money and never received any materials.

Since I had the cancelled check and it had his name on the back, I also contacted the bank trying to get just a phone number. They were unable to do that. So that is where I sort of left it. I said, well, it looks like I am out \$25. I did not go back to the Better Business Bureau and try to pursue how to get back my \$25.

I also sent a second letter to another stuffing envelope individual and that came back with a change of address and no forwarding address—but I did get it back, and again it was around \$20 to \$25. That sort of told me that this one might have skipped town before they got mine, so I decided that was it and I wasn't going to get involved in any others.

For some reason I collected all this stuff over the last year; maybe a voice was telling me to keep it and you will appear at a hearing.

Senator LIEBERMAN. Thank you.

Mr. ROONEY. But I would like to acknowledge you, Senator, and also this hearing, so that Americans will soon learn that this is not the lemonade that they are looking for, but, rather, a lemon.

Thank you.

Senator LIEBERMAN. Thank you, Mr. Rooney.

Let me ask a few questions and then I will yield to Senator Cochran.

Mr. McIlhenny, just to go back and stress something that you mentioned in your testimony, ultimately, you can't think of any of these work-at-home schemes that you have heard about that are legitimate?

Mr. McILHENNY. I can't even think of any instantaneously, let alone ultimately. I just do not know a single one that is legitimate.

Senator LIEBERMAN. Now, I take it there are some, or are there, companies that occasionally retain people who live around a company to do some work at home. Do you know of any?

Mr. McILHENNY. Yes, there are companies. Usually, however, the employee has a relationship with the company. The employee has come into the company, met with people there, been hired and then it becomes possible to do work from home on a computer and different kinds of things like that. There is—and some people frown on it, but I am not making a judgment as to whether it is correct or not—there is an entire industry of apparel assembly, usually in the Northeast United States, up in Maine and elsewhere, where this is done.

Senator LIEBERMAN. Vermont, yes.

Mr. McILHENNY. And these people get paid for their work. But we are not talking about that sort of thing—where somebody has gone in to meet with the employer, made a business arrangement, and then gets some work to do.

Senator LIEBERMAN. At least had a face-to-face interview with the employer and then goes to work.

Mr. McILHENNY. Yes, sir.

Senator LIEBERMAN. In your testimony, you mentioned that publishers have the power to block these ads, but only a few do. Talk to me a little bit more about that. I wonder if you could name any publishers that you know of that have a policy not to run these ads?

Mr. McILHENNY. Only one, but I have a self-interest in it. U.S. News & World Report magazine has a policy not to run those ads. Senator LIEBERMAN. They do.

Mr. McILHENNY. That is the only one I know of for sure.

Senator LIEBERMAN. Do you know why the publications—newspapers, magazines, TV Guide was mentioned here—why they do not try to self-censor these?

Mr. McILHENNY. It is very, very expensive to do so. The cost of checking to see if an ad is for a legitimate business is more than the money that the publication would receive from running the ad.

Senator LIEBERMAN. In your testimony, you suggested that victims file complaints. Did you mean with the Better Business Bureau or with other governmental entities?

Mr. McILHENNY. I think if somebody gets ripped off, they should file a complaint with the Better Business Bureau and with the attorney general and with the local chief of police and anybody else that can help. We want them, however, to inquire first. If they will call the Better Business Bureau, we will be able to tell them to not do business with these people, and then they will not have a complaint.

Senator LIEBERMAN. Bottom line, that is your advice today, do not respond to these ads?

Mr. McILHENNY. Call first, do not respond to these ads. If you have that pent-up desire to try to make some easy money, please call the Better Business Bureau first and check it out.

Senator LIEBERMAN. Again, based on the numbers that you have given us, it appears that these work-at-home scams are becoming more popular, that is, there are more of them going on now as compared to previous years.

Mr. McILHENNY. I was talking to Dick Barton before the meeting, and we were discussing why this is happening. These people "scammers" depend very much on being able to use 800 telephone numbers, 900 numbers, computer-generated information. All of this technology has become available over a recent period of time; certainly since 1980 use of this technology has increased quite a bit. I suggest that it may be easier to run a profitable scam today than it was 13 years ago.

Senator LIEBERMAN. Because of the recession or because of something else?

Mr. McILHENNY. My answer to you is because technologically it is easier to rip off a lot of people. I cannot tell you whether it is because of the recession or not.

Senator LIEBERMAN. Understood. A final question: Do you have any recommendations for specific steps that the government might take to stop these work-at-home scams?

Mr. McILHENNY. It is costly to close them down. There could be a certain amount of public persuasion to get publishers to put at the top of all business opportunity columns, as certain publishers do in the Boston area, "Investigate these firms with your Better Business Bureau, before you do business with them." I am not sure that we can develop a technique to get at scams that are conducted in such small increments as work-at-home scams are, so I think we need to influence the transmitters of the information as much as we can, still within the legal framework with which we live.

Senator LIEBERMAN. Small increments, but as I believe your report suggests, perhaps totalling as much as half a billion dollars a year.

Mr. McILHENNY. I think it could be more than that. The interesting thing about small increments is that, if you "take" \$40 from 1,000 consumers who need it, we do not seem to have a law enforcement system that can tackle that effectively. We have a law enforcement system that will go after one business losing \$40,000, because it is an identifiable larger increment. It is a problem and we have got to help the consumers.

Senator LIEBERMAN. Thank you.

Senator COCHRAN?

Senator COCHRAN. Let me just ask Mr. McIlhenny a question or two about the law enforcement side of this issue. You hear about the FBI and other local law enforcement agencies setting up these fences where they invite people to come in and provide goods, and they get two tickets to the ball game or something like that and they end up capturing a lot of folks who have committed crimes in the way.

I wonder whether or not, if what you say is true—and I believe you—that there is no legitimate advertising going on like this, that invariably every advertisement that is placed for something like this turns out to be a phony and a trap for an innocent person. If we have a law against that kind of thing, punishable by fines or incarceration, why couldn't we set up a situation where those who are placing those ads in newspapers get a visit from the law enforcement agency and found out in that way, arrested and brought to justice?

If these people are embarking on a widespread scheme of depriving innocent people of hard-earned money, it seems to me that ought to be severely punished and we ought to develop some way to cope with that through our law enforcement agencies.

Mr. McILHENNY. I would be delighted if we were to be able to do that. As we all know within government and within any business work at all, we all have priorities. We cannot do everything we would like to. If this meeting, if this hearing, raises the [law enforcement] priority on this particular scam, this incredible cheating of a lot of people in the public, I will do nothing but cheer both of you gentlemen.

Thank you very much.

Senator COCHRAN. Thank you. Well, your being here and giving us this information is very, very helpful, and so is the information we have gotten from the other witnesses. But it seems to me that we need to take a tougher look at how we can combat this from the government's point of view. I think you are doing a great job of providing information and trying to follow up and tell people what they ought to do and how they ought to react to these invitations to make easy money at home.

But I think we need to nail these guys who are behind it and really get tough with them and put a few of them in jail or fine them pretty hard and let that word get around, too. I think that will have a depressing effect on the enthusiasm of these con artists.

Mr. McILHENNY. We would be delighted to form a partnership with you, sir.

Senator COCHRAN. Let us work on it.

Senator LIEBERMAN. Thank you, Senator Cochran. I agree with you and I look forward to working on that.

We will have some good news from the Postal Inspection Service when they testify, because they have, as your testimony indicates, Mr. McIlhenny, had some success, but there is clearly a lot more to do. The scope of this was amazing to me, as we got into it, and I just want to verify that you testified that there were 176,000 complaints—

Mr. McILHENNY. Inquiries.

Senator LIEBERMAN. Inquiries, I am sorry, inquiries to Better Business Bureau offices around the country.

Mr. McILHENNY. That was in 1992, and right now, in 1993, we are running significantly ahead of that annual rate. I would bet it is going to be a quarter of a million inquiries in 1993.

Senator LIEBERMAN. That is really amazing, and I would presume that that is a fraction of the total, because a lot of people are either embarrassed to complain or the amount of money is an irritation. As you said, \$40 can be a week's food for a family, but it is not as if they have lost everything they have. So my guess is that the 176,000 inquiries is a fraction of what is happening.

Mr. McILHENNY. It is just the tip of the iceberg. Remember, those people who inquire first are the ones who do not fall prey to these schemes. The people who respond to these schemes—there has got to be a large enough group of them to make this worthwhile for the rip-off artist.

Senator LIEBERMAN. Correct.

Mr. McILHENNY. So multiply it by 10, 15, 20, you are not going to be able to really measure how big this thing is.

Senator LIEBERMAN. And I take it that these businesses are set up really throughout the country. It is not just in any region. Or to put it another way, because of modern technology as you have described it, and no matter where they are set up, they are working throughout the country, they are working publications.

Mr. McILHENNY. Yes, and they are using mail drops. They are going to be in another State, use another State's mail drop, and this is a business that can be set up by one crook very easily. It is not a big investment to run these ads in the various newspapers.

Senator LIEBERMAN. OK. I appreciate very much the testimony of this panel.

Senator Dorgan, would you like to make an opening statement first?

Senator DORGAN. No, I have no opening statement. I regret I missed the first part of the panel, but I look forward to the rest of the hearing.

Senator LIEBERMAN. Thank you, Senator.

Let me thank Mr. McIlhenny, and particularly thank Ms. Cole, Mr. Matthews and Mr. Rooney for taking the time to come in. I take it that none of you will be responding to similar ads in the future, but I am delighted that each of you is employed and I wish you well.

Thank you very much.

Senator LIEBERMAN. Let's call the second panel, which is one witness, Richard Barton, who is Senior Vice President, Governmental Affairs, Direct Marketing Association.

Mr. Barton, Thanks for being here today. We welcome you and look forward to your testimony now.

TESTIMONY OF RICHARD A. BARTON,¹ SENIOR VICE PRESIDENT, GOVERNMENTAL AFFAIRS, DIRECT MARKETING ASSOCIATION

Mr. BARTON. Mr. Chairman, Senator Cochran and Senator Dorgan, it is a real pleasure to be here today, because this is a very important subject to people in the direct marketing business. In fact, it should be to anybody in business.

The Direct Marketing Association is an international trade association with approximately 3,000 domestic companies who are involved in all aspects of direct marketing. Of course, this issue that we are talking about today is of immense importance to our members, because dealing directly with the consumer in what is an essentially arm's length operation—it is not face-to-face, as you have in the retail industry—we feel that it is extremely important that the American consumer trust the process, trust the direct marketing process, trust the mail. And to the extent that frauds like this succeed, it reduces the trust that people have in the process.

So we work very, very hard in the Direct Marketing Association to try to establish and enforce ethical standards and also to work with law enforcement agencies to eliminate these scams. As you said already today, work-at-home scams seem to be some of the

¹ The prepared statement of Mr. Barton appears on page 37.

most persistent of the frauds that we have been dealing with. They are like dandelions in your law, you never seem to ever quite get rid of them, no matter how hard you try.

I do want to underline something here, though, that you touched on. There are some legitimate opportunities to work at home, not necessarily direct marketing opportunities, but there are some, particularly working in computer operations, some on the telephone and home-based offices and consulting, and there are organizations that support those in-home services.

Though, as you pointed out, those opportunities are generally pursued through a more traditional way in which you recruit people, you have interviews, and the employees they have a personal relationship with a company. They are nothing like the kind of scams we are talking about here.

But the fact that working at home in a legitimate way is becoming more and more prevalent in our society is one of the other reasons that work-at-home scams are growing. People feel that that working at home is legitimate and they can get sucked into these offers very quickly.

Of course, as we have also pointed out, these scams seem to prey on the financially strapped, on the poor, and in many cases on poorly trained people and, therefore, they can be particularly cruel.

For example, we had a case that came before our ethics committee. An Hispanic family, a poor Hispanic family, paid \$400 for supplies to make paper flowers and, you guessed it, they could not sell a single paper flower back to the company that promised that they would buy them. And you have many other examples of this.

College students, for example, seem to be particularly susceptible, because they are given great opportunities to make a lot of money. Some of the ads you have probably seen say \$1,800 a day, taking photographs with your own camera, and if you do not have a camera, they will sell you one for \$49.95. College students are susceptible to that kind of operation.

There are others that you have touched on, compiling a mailing list at home, taking professional pictures at home. The one I like is reviewing restaurants and having free meals and doing restaurant reviews, or whatever they do, and making a lot of money at that.

There are comments elements. This is one of the things that disturbs me, as we discuss more about accepting the advertisements. All these advertisements have common elements. They are very, very easy to spot. They make very dramatic claims, the \$1,800 a day claim, for example.

One that I just read this morning that was given to me by my staff is "win \$26,000 in 19 days by entering lotteries and get horse racing tips" and things of that nature. There is another one that says, "If you have courage enough to answer this ad, you will be a millionaire in 180 days"—a million dollars in 180 days. I am willing to try it.

Senator DORGAN. Could we get that particular ad?

Mr. BARTON. Yes, I will xerox it for you.

Senator DORGAN. Thank you.

Senator LIEBERMAN. That may be a unique way to deal with the National deficit.

Mr. BARTON. I think it sounds wonderful.

The graphics—these are not very good graphics here, but you can see some of them where the graphics are very dramatic. They have fabulous testimonials. There is no experience needed, which is one of the cruel parts of these scams. There is no experience needed to make all of this money. But the last one, in every single case, is upfront money before you ever get anything or any clue, as a matter of fact, to how you are going to do these things. \$49.95 seems to be a very common amount, but it varies across the board.

So it is really not difficult for people who accept ads to spot these. I will have to be frank about it, it has been a little bit of a disappointment to the Direct Marketing Association in working with other organizations, dealing with newspapers and magazines. We have not been able to make better inroads into tougher acceptance of ads by magazines and newspapers. They have their reasons, and it is not an attack on them, but it is very important to toughen ad acceptance standards.

Three ways that the Direct Marketing Association tries to work with many people in eliminating these scams are the traditional ways we need to do better on. One is on self-regulation within the industry, the second is developing even better systems of consumer information, and the third, of course, is tighter law enforcement and regulation.

While we believe very strongly in the value of self-regulation, particularly in the direct marketing business, we have also had a strong stand that we will work with law enforcement agencies to develop regulations and laws that can support self-regulatory activities and make them stronger.

The first area in self-regulation that I will emphasize, which you have already mentioned, is in advertising standards. We have put out four different booklets, three within the Direct Marketing Association and one in conjunction with the Postal Inspection Service, which teach people in broadcast advertising, in the print media and those who rent mailing lists—this is a very important part of it, if you can dry up these people's mailing lists, often you can dry up some of their business—as to what misleading advertisements are, what the common elements are, and what the advertising medium should do in terms of strengthening its programs to assure that you are not getting misleading or fraudulent advertisements in magazines, newspapers, or in broadcasts.

We feel that it is very important for the advertising media to recognize that they have a responsibility to the consumer in the same way that our businesses have a responsibility to the consumer. So we would press very strongly for the advertising media, whether it be broadcast, print or any other, to work even more closely with organizations like us and the Council of Better Business Bureau, to try to eliminate a lot of this false advertising that we are very concerned about.

We also have in self-regulation within the Direct Marketing Association, and the Council of Better Business Bureaus have an example of self-regulation in the industry, not one, but two ethics committees. We may be unique in that. One of our ethics committees is called the Committee on Ethical Business Practices, which hears complaints against businesses who are either operating fraudulently or unethically by DMA standards. We have almost a

semi-judicial operation there, with a lawyer, in hearing these complaints, and then following up and using peer pressure to try to press businesses we think are acting unethically to shape up.

We have some success in that. We obviously have not had much success in the work-at-home schemes, but we have a series of complaints and we do work on them and with the businesses that are involved in it.

If we conclude, and it can be very quickly concluded in many of these cases, that these operations are not just unethical, but that they are fraudulent and illegal, we then turn all of our material over to the Postal Inspection Service or to state attorneys general who are very active in this area, and we will work with them to try to eliminate that particular scam and to work with them, too, in how they can spot the scams as they are coming down the pike.

The second ethics committee develops standard ethical policies and guidelines for the industry which the Committee on Ethical Practices enforces.

The second area is consumer education, and this is a very big area. The Better Business Bureaus, of course, are involved in it. We work very closely—this is an incestuous business, in a way—with the Better Business Bureau. In fact, our Director of Consumer Affairs was formerly in a similar job at the Council of Better Business Bureaus. We work with National Consumer League and other organizations in trying to get across to the consumer the things that they need to look for to avoid being defrauded by scams such as work-at-home scams. We can do a lot better in consumer information.

We have put out, again with the Postal Service, a consumer information pamphlet on how to shop by mail and how to spot operations like this and to avoid them. But we can do a lot better, and I think probably the government, through the U.S. Office of Consumer Affairs and other consumer affairs organizations within the various departments, can do better in teaching the consumer what to look for in fraudulent activities.

Finally, we are strong supporters of strong law enforcement in this area. As a former attorney general, Senator Lieberman, you will be interested in our support for more money for attorneys general. We support stronger enforcement on the state and federal level. There are plenty of laws on the books, but it is a matter of resources, and we think that we need more.

In the past, we have worked with the Postal Inspection Service to increase their law enforcement authority in the area of mail order scams, and the Postal Inspection Service is now seeking new legislation to further increase it. And even though we have just informally discussed these with the Postal Inspection Service, I expect that we will support a fairly large part of their package.

So that is it. These are bad scams, they seem to be getting worse in some areas, particularly in the area of work-at-home, and we would like to see a stronger program of self-regulation in the industry, better consumer information and stronger law enforcement.

Thank you, Mr. Chairman.

Senator LIEBERMAN. Thank you, Mr. Barton.

I think I will run a 5-minute clock on us and we will keep going along as we have questions for you. Again, your testimony seems to

confirm what Mr. McIlhenny said on the earlier panel, which is that there really are no legitimate work-at-home opportunities of the kind we are talking about, with the exception of the ones you described, where somebody will go in and be interviewed by a company or have a special skill that they can work in connection with a company or with a computer.

Mr. BARTON. As far as I know, that is absolutely true, yes.

Senator LIEBERMAN. Since that is true—again, we heard what Mr. McIlhenny said on the specific case of this envelope stuffing, that those are just always ripoffs—I keep wondering whether there is not some way we could better encourage the media that are accepting these ads to follow some guidelines, at least to warn. I understand the problem that a publication cannot check every advertiser, but in this case where the testimony seems to be that every one of these is a fraud, whether we can at least urge publishers to warn people about that fact.

I appreciate that you have published guidelines on ethical practices for newspapers and magazines. Would you just take a minute and describe in a little more detail than you have already what your experience with those guidelines has been and what more you think we might be able to do to encourage that kind of cooperation?

Mr. BARTON. The experience has been inconsistent, in a sense. We distribute this material to the media, to newspapers, magazines and to the broadcast media. We generally get a positive response, in the sense that they do not want to be involved in advertising which is fraudulent. But in the long run, as Mr. McIlhenny pointed out, for most of them, for various reasons, the cost of checking these things out as opposed to the costs of what they would get in the ads is prohibiting, and there are First Amendment considerations, also.

I think that the enforcement of advertising standards has not been in this area, at least, what it could be. Now, we have met in the past with representatives of the Magazine Publishers Association, with what was the American Newspaper Publishers Association, is now the Newspaper Association of America, and have had successful meetings with advertising executives around the country in promoting these guidelines.

Again, I think we obviously have to do much better and we really have to emphasize to the media that it is a good part of their responsibility to stop this kind of fraudulent activity. How we do that, I do not know. I think probably we can, either from a government viewpoint or maybe from an industry viewpoint, sponsor more forums and seminars for advertising executives, to impress upon them their responsibility in this area, also.

Senator LIEBERMAN. Have you ever notified a publisher that they are running a particular ad that you know is for an illegitimate company?

Mr. BARTON. I believe so, but let me ask Marsha Goldberger, our Director of Consumer Affairs. Have we lately talked to publishers about this?

We are just beginning to do that now.

Senator LIEBERMAN. I am curious as to whether any of these work-at-home companies has ever tried to join the Direct Marketing Association?

Mr. BARTON. Not to my knowledge. I do not know of any of these companies that are members. In fact, generally, if you look at these ads, you do not even know what the company is. You send it to a post office box and you are really not sure who they are.

Senator LIEBERMAN. Right.

That is all for me. Senator Cochran?

Senator COCHRAN. I am curious about one aspect of all of this. You mention in your statement that there are plenty of laws on the books and what we need is to channel more resources into the enforcement of those laws. I wonder, do we have a law on the books now, Federal, or is this common-place in the States, making it illegal to offer for publication one of the ads that we see displayed here?

Mr. BARTON. I do not know one that would specifically say that you could not have a work-at-home ad, for example. There are—

Senator COCHRAN. It occurs to me that, if every ad that we have been shown today—and we have copies of these in our briefing book here—if every ad here really is a fraudulent representation, that there is no legitimate work-at-home opportunity that is described by these ads, nobody knows of one, I do not see why we don't make it illegal to offer such an ad for publication and to publish it.

The newspapers and magazines are working hand-in-glove with those who are offering the ads, by knowingly publishing ads that are fraudulent. If all of these are fraudulent, and that is what everybody says, well, the publishers have to know that, too. Maybe we ought to just make it a blanket rule that you cannot publish something like this. What is your reaction to that?

Mr. BARTON. I am not a lawyer, so I do not know what a lawyer would say about the constitutionality of something to that effect. I certainly would be willing to put our lawyers on the case to work with the appropriate government officials or whoever to try to work out something like that.

Senator COCHRAN. I am not trying to pick a fight with the publishers. I know they are going to scream and hold their hands up in holy horror.

Mr. BARTON. I am not, either. They are all members of mine.

Senator COCHRAN. I just wonder about that. You know, if they are all fraudulent and if these are schemes to defraud people of money in an illegal way, and fraud is illegal, and actionable fraud is punishable under most State laws, the fact is that publishing information that directly resulted in that fraudulent act to me ought to be against the law, too.

Mr. BARTON. As I say, I would be happy to see if we could work out passable legal language for something like that.

Senator COCHRAN. Thank you.

Senator LIEBERMAN. Thank you, Senator Cochran.

I think you have asked the right question here, and if the testimony is as we have received it, which is that there are just not any of these that are legitimate, then publishers are accomplices to this fraud, which would not occur without their cooperation.

Senator Dorgan?

Senator DORGAN. It is an excellent point. I suppose the same people would hang the notice on the bulletin board of a laundromat, but publishing it certainly distributes it more widely.

I got some information from the Attorney General's office in North Dakota and notice from the information I received from them that this problem does not know any geographic boundaries. It is a problem in both urban areas and rural areas. It is interesting that many of the instances that result in complaints are never really resolved. It is very hard and costly to pursue this.

I am guessing, and the Attorney General's office suggested that often the most vulnerable people who are caught in these circumstances are those who are sort of looking for some extra opportunity for some income because they have had trouble and they are down and out. So they see an ad that catches their eye and it pulls them in and takes their last \$49. This really is fraud, even if it is small-time fraud and is never resolved.

So I appreciate your testimony and I hope there are ways to alert people to the dangers of this and also to try to deal with and respond to those who perpetrate this fraud. I think some of the suggestions you have made are good suggestions. I support this hearing's efforts to highlight this as a problem and try and explore what approaches can be used to respond to it.

Mr. Chairman, thank you very much.

Senator LIEBERMAN. Thank you, Senator Dorgan.

Mr. Barton, I do not have any further questions. Thank you very much for your time and your cooperation.

Mr. BARTON. Thank you.

Senator LIEBERMAN. The final panel are Alvin Lamden, Manager, Fraud and Prohibited Mailings, U.S. Postal Inspection Service, and Jennifer Angelo, Chief Counsel for Consumer Protection, U.S. Postal Inspection Service. These are the folks that have been doing the work thus far on this matter, and we look forward to their testimony.

Mr. Lamden, would you like to begin.

TESTIMONY OF ALVIN F. LAMDEN,¹ MANAGER, FRAUD AND PROHIBITED MAILINGS, U.S. POSTAL INSPECTION SERVICE; ACCOMPANIED BY JENNIFER ANGELO, CHIEF COUNSEL FOR CONSUMER PROTECTION, U.S. POSTAL INSPECTION SERVICE

Mr. LAMDEN. Good morning, Mr. Chairman, Senator Cochran and Senator Dorgan.

I am Al Lamden, Manager of the Fraud and Prohibited Mailings Branch of the Postal Inspection Service. I am accompanied by Jennifer Angelo, Chief Counsel for Consumer Protection. We are pleased to have this opportunity to discuss the current efforts of the U.S. Postal Service to combat work-at-home schemes.

The Postal Inspection Service is the investigative and audit arm of the U.S. Postal Service. There are 2,000 inspectors nationwide who are responsible for protecting postal employees, the mails and postal facilities from criminal attack, and for protecting the Ameri-

¹ The prepared statement of Mr. Lamden appears on page 39.

can public from being victimized by fraudulent schemes involving the mails.

We are also responsible for keeping postal management informed of operating conditions within the Postal Service and for protecting the Postal Service against fraud, waste and abuse. We have performed these duties for over 200 years and are one of the oldest Federal law enforcement agencies.

A number of statutes allow us to take action against fraudulent practices involving the use of the mails. Our primary weapons are two statutes originally enacted over a century ago, the criminal mail fraud statute and the civil postal false representation statute.

The mail fraud statute defines as a felony any intentional use of the mails to defraud. Violators are subject to fines and imprisonment, and where the proceeds of the crime are used to further the scheme, we have authority under the money laundering statutes to forfeit those proceeds or property they were used to acquire.

The false representations statute allows the Postal Service to take administrative action to return to the sender all mail sent in response to any false advertisement which seeks to obtain money or property by mail and to order the promoter to cease and desist. Because these proceedings are time-consuming, two Federal injunction statutes allow us to take prompt interim action against deceptive mail practices.

In addition, two other statutes allow us to detain mail addressed to false or fictitious names or addresses used to conduct mail fraud schemes until the claimant identifies himself or herself and proves their entitlement to the mail.

Work-at-home promotions are among the most common and enduring forms of mail order schemes. In times of higher unemployment, more individuals become vulnerable to these promotions. We pursue these schemes under our civil statutes, and, when the circumstances of the case permit, we seek criminal prosecution, as well.

We also obtain voluntary discontinuance agreements from a large number of promoters. The first half of this fiscal year, we filed 24 civil complaints and obtained 23 cease and desist orders against work-at-home schemes. We also obtained over 1,000 voluntary discontinuance agreements. We currently have 82 open investigations of work-at-home promotions.

A typical work-at-home promotion begins with a classified advertisement offering free information on how to earn hundreds or thousands of dollars weekly by working at home performing such duties as stuffing envelopes, assembling products, reading books or typing.

Individuals who request the free information are sent a circular or given a telephone pitch that describes the program in glowing terms, promising high incomes, regardless of experience, and giving the impression that, for a fee, participants will receive all materials they need to immediately begin making money. The fees generally range from \$20 to \$50, and some more sophisticated programs can cost hundreds.

What consumers receive in exchange for their money varies, but these work-at-home programs are almost always a fraud. They do not generate the promised income, and frequently they require par-

ticipants to invest substantially of their own money or to deceive others.

The most common work-at-home scheme is envelope stuffing. We are aware of no envelope stuffing promotion that ever produced substantial income. In practically all businesses, envelope stuffing has become a highly-mechanized operation, using sophisticated mass-mailing techniques and equipment which eliminates any profit potential for an individual doing this type of work at home.

Nevertheless, promoters of these schemes advertise that participants can earn "hundreds weekly" stuffing envelopes, or \$3 per envelope stuffed. They represent that participants will be provided all materials they need to earn these amounts. Most victims believe they will be sent envelopes to stuff and that their income will be limited only by the amount of time they want to spend stuffing envelopes.

Once victims have paid the \$20 or \$30 fee to participate, they receive no envelopes or any other materials. Instead, they receive a pamphlet, usually entitled "The Complete Home Mailers Program," which instructs them to place and pay for work-at-home classified advertisements like the one that they responded to.

The only way these victims get envelopes to stuff is to generate responses to these advertisements. The participant must essential start his or her own business to obtain envelopes. Moreover, the only material stuffed into these envelopes is the circular describing the home mailers program. In most work-at-home schemes, there is never any product being sold other than the work-at-home program itself.

In one notable envelope stuffing case, the Postal Service worked with the United States Attorney in Brooklyn to freeze the assets of William Savran, whose corporation was bringing in \$50,000 a month. Savran's promotion was called "Successful Systems," and he charged his victims \$27 to participate.

The District Court enjoined Savran from sending out mailings or advertisements in connection with the successful systems business, directed the Postal Service to return Savran's incoming mail to sender, and ultimately ordered that \$400,000 of Savran's assets be returned to Savran's victims. The Better Business Bureau of New York has taken on the task of executing those refunds.

We took criminal action against Eric Raynor, who was mentioned earlier, last year in connection with another envelope stuffing scheme. He sent direct mail advertisements falsely representing that he ran a loan company that needed to expand its business by reaching more potential borrowers. He offered to provide all supplies a person would need to stuff envelopes for him and promised 50 cents per envelope stuffed, or an average of \$500 per week. Like many shady promoters, he told his customers, "This is not a get-rich scheme, but an honest opportunity."

We received over 1,000 complaints about Mr. Raynor. We estimate he victimized over 15,000 people. Mr. Raynor was arrested by postal inspectors and charged with mail fraud in April of 1992. In May of this year, he entered a guilty plea. Sentencing is pending.

Other work-at-home schemes involve assembling or making products. We took criminal and civil action against one such scheme, in which Peter Ingram, under the name P&I Enterprises, induced

people to send \$29 to \$80 for woodworking or jewelry kits. Ingram promised that some workers would earn \$216 to \$256 per week, either assembling necklaces or carving wood blocks into cupids arrows. In fact, Ingram's assembly instructions were difficult to follow. Persons who attempted to follow them found that Ingram would reject the products they made, telling them they were flawed or otherwise incorrectly assembled, and none of his home workers made money as promised.

I do have a sample of the wood block that he sent and I assure you it was virtually impossible to make anything that would be worthwhile for him to accept.

The Postal Service Law Department filed a civil administrative complaint against Ingram, obtaining his agreement to cease and desist from the scheme. Ingram then pled guilty to State criminal charges, made restitution of \$57,300 to his victims, and was put on probation for 2½ years.

Mr. Chairman, I appreciate your offer of legislative initiatives that could bolster our efforts to attack work-at-home and other employment schemes. We have included several proposals in our written testimony.

Finally, we want to thank you for introducing S. 279, which, as you know, would greatly enhance our weapons against advance fee loan schemes.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions you may have.

Senator LIEBERMAN. Thank you, Mr. Lamden.

Ms. Angelo, I take it you do not have separate testimony, but you are available for questioning.

Ms. ANGELO. That is correct.

Senator LIEBERMAN. Thank you.

Thanks for what you have been doing. The PIS is really a too little known agency of government and, in my opinion, one of the most important protectors of consumers. It has a long and proud history.

Historically, I am curious if you know when these work-at-home scams began to appear. How long have they been in evidence?

Mr. LAMDEN. Mr. Chairman, I have been in the Postal Inspection Service 24 years and it has been a top priority of our service ever since I have been in, and I know it goes back a lot further.

Senator LIEBERMAN. Before that?

Mr. LAMDEN. Yes.

Senator LIEBERMAN. Again, from your testimony, work-at-home scams increase with economic difficulties in the country.

Mr. LAMDEN. Yes.

Senator LIEBERMAN. People are preying on other people, essentially?

Mr. LAMDEN. That seems to be the trend.

Senator LIEBERMAN. Again, your testimony confirms what we heard from the two earlier panels, which is that you really do not find legitimate work-at-home business opportunities through the classified ad sections.

Mr. LAMDEN. Certainly not any ad where they request money up front, we have found virtually no promotions that were legitimate.

Senator LIEBERMAN. You have had some success in closing down a significant number of these operations. Who are these folks? Are these people who generally have had criminal records or records of being con artists? Who are they?

Mr. LAMDEN. They run the gamut. We have had some major criminal investigations where people have had prior criminal records and are opening up new fraudulent schemes. Others are people that have just tried to make a get-rich-type promotion, take up a little fast money and then move on.

Senator LIEBERMAN. Basically, it does not take them too much to get into business, I take it.

Mr. LAMDEN. No, it does not, just simply taking out an ad and making up a promotion.

Senator LIEBERMAN. Low investment.

Mr. LAMDEN. Very low investment.

Senator LIEBERMAN. Once you close them up, do the people tend to reappear somewhere else?

Mr. LAMDEN. A lot of the people, as I said, are people that have decided on possibly a get-rich-type promotion. We have issued, like I mentioned, over 1,000 voluntary discontinuances this year. We have put people on notice that what they are doing could be illegal. It is impossible for me to say if those people repeat, but I would say to a large extent that is a one-time shot. We have other people, as I mentioned, that we have put out of business, taken criminal action, and then they crop up again.

Senator LIEBERMAN. Is there any evidence that this is organized, that there is any relationship between these work-at-home ripoff artists and organized crime?

Mr. LAMDEN. I am not aware.

Senator LIEBERMAN. So they tend to be more individual con artists?

Mr. LAMDEN. Yes, that has been my experience.

Senator LIEBERMAN. In their testimony, the Council of Better Business Bureaus say that some of its bureaus are under the impression that the Postal Inspection Service will not go after a company, unless consumers have collectively lost about a quarter of a million dollars. Is that correct?

Mr. LAMDEN. There is nothing in writing. I do not believe you will find anything in writing in any particular judicial district with that specific threshold. Obviously, there are some major metropolitan areas where the amount of money lost, the threshold may be different as far as what prosecution would take place. But if a case is worthy of prosecution, I do not believe a specific threshold is in effect.

Senator LIEBERMAN. Just one or two more questions, if I could. Do you cooperate at all with the Federal Trade Commission? Do you know if they have been involved in this matter at all?

Mr. LAMDEN. We work very closely with the Federal Trade Commission, exchange information, and we both have basically the same aims in this area.

Senator LIEBERMAN. I gather there is one State we know of, Maryland, that has a statute that is related to this problem and they prohibit anyone who "places any advertisement that represents that any person can earn money at home by stuffing or ad-

addressing envelopes, mailing circulars, clipping newspaper or magazines articles, or, performing similar work from requiring any money up front." That is the prohibition there. I do not know if you are familiar with the statute, but I am curious about what your opinion of it is.

INSERT FOR THE RECORD

SEC. 13-314 ANNOTATED CODE OF MARYLAND

§ 13-314. Work-at-home advertisements.

A person who places any advertisement that represents that any person can earn money at home by stuffing or addressing envelopes, mailing circulars, clipping newspaper or magazine articles, or performing similar work:

- (1) Shall pay compensation to others for performing the represented tasks; and
- (2) May not require the person who will perform the represented tasks to advance any monetary payment or deposit to the person who placed the advertisement on any instructional booklets, brochures, kits, programs or similar information materials, mailing lists, directories, memberships in cooperative associations, or other items or services. (1980, ch. 371.)

Mr. LAMDEN. I am not familiar with that. I do not know if you have.

Ms. ANGELO. We have seen the statute, and if all 50 States enacted it, it would be an excellent idea. On the Federal law, we already have the authority that we need to at least call these promotions fraudulent, so this would simply make more specific things that we already call fraudulent under existing Federal laws.

On the other hand, as some kind of a trade regulation, say a Federal Trade Commission trade regulation, I think it could be very beneficial as a deterrent, putting people on notice.

Senator LIEBERMAN. It might help. Thank you.

My time is up. Senator Cochran?

Senator COCHRAN. I notice in your testimony you mention the mail fraud statutes as being very useful tools and weapons in the battle to do something about these unlawful schemes, and I want to commend you for being aggressive and having the conscientious commitment that you obviously do to bring these con artists to justice. You have a good record of doing that.

You also suggest that these statutes could be expanded to apply, as well, to private courier services and also to give you the power to get at telephone records that may give you information about who is using the telephones to perpetuate these scams. I am sure the fact that private courier services are used for a lot of legitimate operations and legitimate passing of information might trouble some about extending the power of the Postal Service to private services of that kind.

Is there any statute that you know about already on the books that applies to the private courier services that gives you the right to do what you want to do under this statute?

Mr. LAMDEN. I am not aware of any, Senator.

Senator COCHRAN. You mentioned that sometimes telephone companies do not respond to subpoenas that are issued under the lawful powers that you have. Do you have any kind of power to compel compliance with subpoenas? I thought we had those powers under the law.

Mr. LAMDEN. What we would be seeking is civil investigative demands to move in quickly and obtain records from the telephone companies prior to getting a subpoena, if we do not have enough evidence developed to obtain a subpoena.

Ms. ANGELO. In the criminal context, where we already have subpoena authority, we do have ways of enforcing subpoenas through the U.S. Attorneys office. What Mr. Lamden just mentioned was a civil investigative demand authority that we have actually requested be inserted into our civil statute, because we have no subpoena authority under the civil false representations statute right now.

Senator CORHRAN. Well, these are interesting challenges and we do have to be careful to balance individual rights and protections of privacy and that kind of thing and lawful business activities that may use courier services. But I am in full agreement with you that we need to use all the lawful and constitutional powers that are available to us to do something to protect innocent consumers and those who are taken advantage of in these unlawful activities.

I think the Chairman is certainly doing a great job to help bring this information to the attention of the general public in scheduling and convening this hearing and inviting you to be here to help us understand what we can do, as the branch of the government that makes the laws, to strengthen our laws in this area and make sure that we have what we need to do the job.

Thank you, Mr. Chairman.

Senator LIEBERMAN. Thank you, Senator Cochran, for your kind words and for your partnership in this effort to protect American consumers, particularly those who are a little more vulnerable these days, because of the economy, and, again, are not looking for a free ride, just for an opportunity to work at home and make a little extra money.

I have two more brief questions. One goes to this question that has been raised earlier about the obligation of newspapers and magazines that publish these ads, which again we have heard over and over today are just about almost always frauds.

I wonder whether the Postal Inspection Service ever notifies newspapers and magazines that they are running ads for operations that you have found to be fraudulent?

Mr. LAMDEN. Well, I guess I should not speak to it, because I cannot speak to any specific instances. I think we have in the past conferred with publishers regarding frauds in ads, but I cannot really mention any specific instances.

Senator LIEBERMAN. Do you think it would be a good idea and an appropriate exercise of your authority?

Ms. ANGELO. I think contacting them, without telling them that they are violating or potentially violating the law, might exceed our enforcement authority in spirit. On the other hand, I think it is not a bad idea, as soon of a cooperative effort.

Senator LIEBERMAN. That is the tone of which I was thinking of it, and I urge you to consider that.

Finally, of the recommendations that you make in your prepared statement about additional authority that you think might help you pursue these cases, do you want to go into any more detail on any of those?

Mr. LAMDEN. Well, we have some specifics, I believe you do, Jennifer.

Ms. ANGELO. The main thing—and this would help us in all of our cases, not just work-at-home—the main legislation that we are interested in is a bill that was introduced in the last session by Senator Pryor which would expand our authority in a number of ways. It would give us the civil investigative demand authority, it would permit us to go into district court and not only seek to immediately detain incoming mail responding to a scheme, but also to seek an order just stopping the business altogether. So if it were a telemarketing business, it would be yank the phones out of the wall. If it were direct mail, it would be stop mailing.

Under the civil statute right now, all we can do is get the money that is coming in after the scheme has run its course, and this legislation would give us an extra jump on the promoters.

Senator LIEBERMAN. That is very important. So the general authority that is being asked for in Senator Pryor's legislation would obviously help you to protect people in these cases?

Ms. ANGELO. Absolutely.

Senator LIEBERMAN. Thank you very much.

It seems to me, just to sum up very briefly, that this is a serious problem with substantial economic consequences, half a billion dollars a year has been testified to. Really, every case we have heard is a ripoff, and presents enforcement difficulties, because of the small mounts of money that are generally lost by people.

So I want to mention just four areas of discussion that the subcommittee will pursue that have been mentioned here today. One deals with the whole question of who publishes and why, and the suggestion made by Senator Cochran that we may want to think about prohibiting these ads, because they always seem to be fraudulent, understanding, as he said, that we have got constitutional questions and others that we would want to look at. At a minimum, we would want to see how we might better encourage the publishers to self-regulate here, or at least to warn consumers.

Secondly, there was a mention of possible FTC regulation in this area that would put people on notice. Third is the possibility of other State statutes like the one in Maryland, and finally the recommendations that you have made for expanding the authority of the Postal Inspection Service to even do better than you have already done at pursuing these con artists.

So the subcommittee will consider all of those and try to remain constructive. Obviously, in some measure we hope, as Senator Cochran said, that the publicity attendant to a hearing like this will send a warning out across the country and that consumers will self-protect by not responding to these ads.

Again, I thank Senator Cochran, the ranking member of the subcommittee. I thank all the witnesses today. The record of the hearing will remain open for an additional two weeks for any additional testimony that anybody would like to submit.

The hearing is adjourned.

[Whereupon, at 11:35 a.m., the subcommittee was adjourned.]

APPENDIX

PREPARED STATEMENT OF JAMES H. McILHENNY

Good morning, Mr. Chairman. My name is James McIlhenny, and I am president of the Council of Better Business Bureaus. I ask that my statement be included in the formal record of these proceedings.

Let me begin by applauding you, Senator Lieberman, for calling public attention to the growing problem of work-at-home scams. These scams, considered "nickel and dime" crimes by many in the law enforcement field, take advantage of the eagerness of people to earn money by doing work at home. Victims of these swindles are generally not looking for "something for nothing." Folks attracted to these offers are, by and large, eager to do honest work for honest pay. They just find it difficult, sometimes impossible, to locate or hold a job outside their home because of family obligations (many victims are stay-at-home mothers), health considerations (that's why the elderly and disabled are easy targets for such scams) or level of education (poorly-educated or low-income people have an unusually rough time finding jobs in today's tough marketplace).

Too often work-at-home scams are dismissed as petty nuisances. Bureaus report that the amount of money lost by a work-at-home victim ranges anywhere from \$5 to hundreds of dollars, with the average hovering around \$40. That doesn't seem like a significant amount of money, but you have to realize that it probably represents the week's grocery money for many victims.

And, it's not unusual for a person to fall victim to two or three or four such scams, before they finally realize that they are not going to receive actual employment from such offers. Most people want to believe that the work-at-home promotion that has captured their attention actually might be legitimate.

I think we need to ask ourselves: Who commits the greater crime—a person who steals \$40,000 from one company, say in a bank robbery, or one company that steals \$40 from 1,000 individuals, which is not an uncommon feat for work-at-home promoters? The amount of money involved—\$40,000—is the same, but there's a huge difference in the number of people who wind up victimized.

The Scope of the Problem

A nationwide investigation by the Council in 1980 of 55 work-at-home promotions revealed that consumers who wanted to supplement their income by investing in work-at-home opportunities were losing their money to unscrupulous promoters using misleading advertising claims. It's now 13 years later and the situation today, unfortunately, is much the same, or worse.

Work-at-home companies received the largest number of inquiries—more than 176,000—of any of the 327 types of businesses included in the Council's 1992 Annual Inquiry and Complaint Summary. The Work-at-Home category has ranked among the top 10 most-asked-about businesses for the past 5 years; it ranked number 2 in 1991 and 1990, number 6 in 1989 and number 8 in 1988. However, the past 3 years have witnessed a significant leap of 20 percent in the number of inquiries.

A special survey conducted by the Council this spring found that Bureaus across the Nation are reporting that work-at-home schemes now account for their largest or fastest-growing category of inquiries. In fact, Bureau responses to the survey indicate that 1993 inquiry totals will exceed last year's totals. Boston received 4,393 inquiries about work-at-home companies in 1992, and fielded 2,125 inquiries during the first 3 months of this year. Bryan, Texas, which handled 177 inquiries in 1992, reports that it surpassed that figure by May of this year. Pittsburgh reported 680 inquiries in 1992 and received 509 inquiries by June 1 of 1993. Albuquerque handled 2,454 inquiries in 1992, and 1,152 in the first 4 months of 1993.

You'll note from the attached state-by-state breakdown that work-at-home promotions are as prevalent on the East Coast (Baltimore reported "at least" 1,117 inquiries

ies in 1992; Philadelphia fielded more than 3,000 inquiries; Miami—just over 1,000) as they are on the West Coast (BBB Sacramento—1,034 inquiries; Portland—1,603 inquiries; BBB Los Angeles—11,000 inquiries). The schemes are as common in the North (the St. Paul Bureau reported 1,200 inquiries in the first 4 months of 1993 alone) as they are in the South (Lafayette, LA—more than 2,500).

Even the center of our country is not immune from work-at-home pitches. In fact, it seems to be a special favorite of such promoters. Wichita reports that work-at-home schemes topped their inquiry list for January and February of this year. The Topeka Bureau reports that more people call to ask about work-at-home opportunities than any other single item. Topeka fielded 1,300 inquiries last year; Chicago reported 5,204 inquiries; Ft. Wayne, IN—1,022 inquiries; Omaha—3,000 inquiries and Toledo—2,000 inquiries.

Residents of small towns are as likely to inquire about such promotions as are residents of big cities. That's why the smaller Bureaus (such as Asheville, NC with 554 inquiries; Tyler, TX with 650, Boise with 567 and Pueblo CO with 152) consider these promotions to be as serious a problem as do the larger Bureaus. The New York City Bureau, which fielded over 3,000 inquiries last year, reports that of the Bureau's top 25 most inquired about companies, two are work-at-home scams. Detroit fielded over 5,000 and Seattle handled 4,000 inquiries.

Why the Concern?

Why are we so concerned about work-at-home schemes? As you may know, the Council of Better Business Bureaus (CBBB) promotes ethical standards of business practices and protects consumers through voluntary self-regulation and monitoring activities. We have a very strong grassroots presence in the world of consumer protection.

The entire Bureau system is supported through the membership of private business; we are not a government agency and our consumer-oriented programs are not supported by tax dollars. CBBB members include major businesses and 170 Better Business Bureaus and branches in the United States. And those 170 Bureaus are supported by almost a quarter of a million businesses interested in an ethical marketplace.

Folks who receive offers by phone or mail—offers that sound too good to be true and are from companies they've never heard of—usually turn first to their Better Business Bureau for help and information. Bureau staff members have become all too familiar with the scam artists and unethical promoters who prey on an unsuspecting public. Bureaus are on the front-line every day working to identify and alert the public to the fraudulent schemes that continue to proliferate. Work-at-home schemes are a perennial. They never quite go away . . . such schemes appear, disappear and reappear periodically to bilk a fresh group of victims.

What's more, our survey results tell us such schemes are not likely to go away any time soon. When Bureaus were asked why work-at-home schemes continue to proliferate, the cause most frequently cited was the uncertain economy and continuing unemployment. Tough or uncertain economic times, which we are experiencing now, breed work-at-home schemes. Other reasons why these schemes continue to be a problem, according to BBBs, are the lure of easy money; a popular belief that what is printed in the newspaper must be true, the fact that newspapers continue to accept these misleading/false advertisements and little government enforcement at any level. Several Bureaus attributed the continued success of these fraudulent companies to consumers who do not complain or seek refunds. Consumers often write off the amount of their loss as insignificant or they may be too embarrassed to admit to being taken.

Each of these causes need to be addressed if we are to make headway against these scams. And, as much as we'd like to, the BBB can't crack down on these crooks by ourselves. We must work together with other interested parties—law enforcement, publishers, consumer groups, senior citizen associations—to educate the public about "work-at-home" promotions, and to convince victims to file a complaint when they get taken.

How Do Such Scams Work?

There are basically two types of work-at-home "jobs"—the envelope-stuffing scheme and the craft assembly type offer. Bureaus report that the vast majority of work-at-home "jobs" offered are for stuffing envelopes. In fact, 96 percent of the Bureaus that responded regularly advise consumers on the pitfalls of envelope-stuffing opportunities.

The envelope-stuffing scheme urges people to send away for information which will enable them to "make \$650 a week" stuffing envelopes. Instead of receiving envelopes to stuff, inquirers receive promotional materials asking for more money in

order to receive additional details on money-making plans. The plans encourage placement of ads with similar fraudulent offers to recruit others for the same business of offering a work-at-home plan. Such schemes require expending several hundred dollars for advertising, postage, envelopes and printing. This system is one which feeds on continuous recruitment of persons, and by such geometric progress, would soon involve everyone in the country.

The second most popular work-at-home "job" as reported by 58 percent of the Bureaus was craft assembly. Assembly offers include assembling circuit boards; making hair bows, baby bibs, Christmas ornaments; making stuffed animals, painting novelty items, guitar-stringing assembly; and offers to get started processing medical claims on your home computer.

Assembly work-at-home schemes often require the investment of hundreds of dollars in instructions, materials and equipment and many hours of time to produce items for a company that has promised to buy them. Once the supplies have been purchased and the work completed, the company refuses to pay for the assembled items because it claims the work doesn't meet certain "standards." Victims of such schemes are then stuck with having to find customers for the items they've already made.

Other popular types of work-at-home scams reported by the Bureaus include tracing unclaimed government funds, reading books or taking photographs or videos for pay and selling lists and directories of work-at-home opportunities.

Who's Vulnerable to These Appeals?

The individual stories behind these numbers are often sad ones. Our survey reveals that the two largest groups victimized by the scam are stay-at-home mothers (mentioned by 48 Bureaus) and the elderly (cited by 35 Bureaus). Many stay-at-home mothers are looking for a way to supplement their family's income without having to worry about finding affordable child care. The elderly are also prime targets. An ad which promises: "work from home, no experience required, set your own hours" appeals to many senior citizens who are housebound, but eager to supplement their fixed incomes.

Other groups likely to be duped by work-at-home offers include college students, persons with disabilities, the unemployed and low-income families. Several Bureaus noted that victims of such scams include full-time workers who are searching for ways to supplement their income. Our Honolulu Bureau reports: "In Hawaii where the cost of living is so high, we have many, many full-time workers who are exploring ways to earn extra income."

Our survey asked Bureaus how consumers hear about work-at-home "opportunities." Ninety-three percent of the Bureaus report that such offers appear in classified ads, most often in free weekly newspapers or "shopping" newspapers. However, Bureaus also cite legitimate, respectable newspapers and periodicals that run misleading work-at-home ads. Many Bureaus noted that most classified work-at-home ads are not placed by local companies. Instead, companies advertise in states other than where they are located to escape the scrutiny of local law enforcement agencies.

Other methods of promotion include direct mail (noted by 15 Bureaus), cable television and directories of work-at-home opportunities.

A new method of advertisement by work-at-home "job" promoters was noted by the Fort Wayne Bureau in their survey response. "Many scam artists now use bulletin boards in grocery stores, cafeterias, laundromats, etc. to avoid mailing out work-at-home offers. They therefore avoid use of the U.S. Postal Service and subsequent investigation by the postal authorities." The Fort Wayne BBB encourages its members to monitor bulletin boards at their businesses to check for offers that appear "Too Good to Be True."

Curbing Work-at-Home Schemes

"Work-at-home" schemes are easy to spot, but hard to stop. BBBs routinely bring such scams to the attention of law enforcement agencies. But our survey results show that despite receiving thousands of inquiries and complaints annually, law enforcement officials rarely crack down on the operators that run the scams because the amount of money involved is seemingly insignificant. Postal Inspectors close down many such scams each year, but new ones spring up to replace them. Sometimes the companies go out of business before the Postal Inspector can be notified and an investigation gotten underway. One Bureau noted that its Postal Inspector won't open a case until \$250,000 in losses are recorded.

Only 23 percent of the Bureaus reported any actions taken by law enforcement agencies. In most cases, crackdown efforts were made by the U.S. Postal Inspection

Service, distantly followed by state attorneys general, the Federal Trade Commission and local district attorney offices.

Better Business Bureaus also attempt to combat such schemes with information. We preach "investigate before you invest." The BBB issues millions of reliability reports on work-at-home and other businesses and attempts to educate the public through pamphlets (such as our "Tips on Work-at-Home Schemes"), news release warnings about various scams, radio and TV appearances, speeches before community groups, and newsletters to member businesses.

BBBs urge those victimized by work-at-home offers to file a complaint. Remaining silent only allows others to be victimized by the same scam. Bureaus report that they are sometimes, but not always effective in helping victims to recover their money. Our experience shows that companies that offer product assembly jobs are more responsive to complaints when presented than are companies that offer envelope-stuffing opportunities.

As I mentioned, it's not unusual for even the most respectable newspapers and magazines to run ads for "work-at-home" schemes. Publishers have the power to block such ads, but only a few do. Many BBBs offer help to local publications to check such ads before publication. Our Tacoma and Boston Bureaus report that their local newspapers print a statement in the classified and "business opportunity" ad sections advising readers to contact the BBB before doing business with a company.

Are There Any Legitimate Work-at-Home Companies?

Not too long ago, Ann Landers ran a column reciting the experience of a 73-year-old man who'd been "taken" by a work-at-home scheme. Ms. Landers invited Better Business Bureaus to respond to her belief that BBBs aren't cracking down on these operators. Thankfully, she printed my response detailing ongoing BBB efforts to combat such schemes.

I now receive several inquiries a week from readers of Ann Landers asking if I know of any legitimate work-at-home companies. We forward such letters to the Bureaus which keep records of individual companies. I would have to say though that it's very rare for a company that's on the "up and up" to employ a complete stranger to work from their home and ask them to pay something for the privilege.

The best piece of advice I can offer to those interested in pursuing work-at-home opportunities is to carefully evaluate any such promotion, and to check with their local BBB to ascertain the reputation of the company. They shouldn't assume that the offer doesn't warrant checking out because it involves only a "small" fee upfront. That's the attitude that allows work-at-home scam artists to prosper.

Mr. Chairman, I commend you for focusing the attention of Congress on the ageless, timeless work-at-home scam. I volunteer the attention of the Council and local Bureaus in assisting you in evaluating how best to combat this serious problem.

Thank you.

Attachment 1 to Testimony of James H. McIlhenny, President, Council of Better Business Bureaus

Survey results -- Number of Inquiries on Work-at-home Schemes by Bureau City

	<u>1992</u>	<u>1993</u>
Albuquerque	2,454	1,152 (through April)
Amarillo, TX	125	
Asheville, NC	554	
Augusta, GA	617	
Baltimore	1,117 plus	
Baton Rouge	1,891	
Beaumont, TX	324	
Birmingham	1,282	
Blountville, TN	435	
Boise	567	
Boston	4,393	2,125 (through March, and is the Bureau's number one inquired about category) 177 (through May)
Bryan, TX	177	
Chattanooga	141	
Chicago	5,204	
Cincinnati	2,049	
Colorado Springs	1,017	
Columbus, GA	50	
Columbus, OH	1,363	
Cypress/Colton, CA	11,036	
Dallas	514	
Denver	2,228	
Des Moines	319	
Detroit	5,084	
Evansville	549	
Fairfield, CT	3,892	
Ft. Wayne, IN	1,022	
Grand Rapids	1,059	
Greenville SC	198	
Honolulu	99	
Houma, LA	462	
Indianapolis	200	
Knoxville	970	
Lafayette, LA	2,500	
Lake Charles, LA	240	
Lincoln, NE	372	

Little Rock	1,052	
Louisville	1,084	
Macon, GA	72	
Memphis	2,600	
Miami	1,049	
Mobile, AL	785	
Monroe, LA	408	
New York City	3,000 plus	
Norfolk	451	
Omaha NE	3,000	
Orlando	505	
Paramus NJ	1,300	
Philadelphia	3,000 plus	
Phoenix	5,091	
Pittsburgh	680 plus	509 (through May)
Portland, OR	1,605	
Pueblo, CO	152	
Sacramento	1,034	
San Diego	604	
San Jose	370	
St. Louis	3,411	
St. Paul	3,489	1,200 (through April)
Salt Lake City	127	
Santa Barbara	1,457	
Scranton, PA	1,117	
Seattle	4,000	
Shreveport, LA	435	
Sioux City, IA	200 plus	
Stockton, CA	201	
Tacoma	600	
Toledo	2,000 plus	
Topeka	1,300	
Tulsa	200 plus	
Tucson	1,560	
Tyler, TX	650	
Wallingford, CT	982	
Weslaco, TX	144	
Westmont, NJ	2,204	
West Palm Beach	1,354	
Winston-Salem	443	

Attachment 2 to Testimony of James H. McIlhenny, President, Council of Better Business Bureaus

Survey Results -- Number of Inquiries on Work-at-Home Schemes by State

Alabama		Georgia	
Birmingham	1,282	Augusta	617
Mobile	785	Columbus	50
		Macon	72
Arizona		Hawaii	
Phoenix	5,091	Honolulu	99
Tucson	1,560		
Arkansas		Idaho	
Little Rock	1,052	Boise	567
California		Illinois	
Cypress/Colton	11,036	Chicago	5,204
Sacramento	1,034		
San Diego	604	Indiana	
San Jose	370	Evansville	549
Santa Barbara	1,457	Ft. Wayne	1,022
Stockton	201	Indianapolis	200
Colorado		Iowa	
Colorado Springs	1,017	Des Moines	319
Denver	2,228	Sioux City	200 plus
Pueblo	152		
Connecticut		Kansas	
Fairfield	3,892	Topeka	1,300
Wallingford	982		
Florida		Kentucky	
Miami	1,049	Louisville	1,084
Orlando	505		
W. Palm Beach	1,354	Louisiana	
		Baton Rouge	1,891
		Houma	462
		Lafayette	2,500
		Lake Charles	240
		Monroe	408
		Shreveport	435

Maryland		Oklahoma	
Baltimore	1,117 plus	Tulsa	200 plus
Massachusetts		Oregon	
Boston	4,393	Portland	1,605
Michigan		Pennsylvania	
Detroit	5,084	Philadelphia	3,000 plus
Grand Rapids	1,059	Pittsburgh	680 plus
		Scranton	1,117
Minnesota		South Carolina	
St. Paul	3,489	Greenville	198
Missouri		Tennessee	
St. Louis	3,411	Blountville	435
Nebraska		Chattanooga	141
Lincoln	372	Knoxville	970
Omaha	3,000	Memphis	2,600
New Jersey		Texas	
Paramus	1,300	Amarillo	125
Westmont	2,204	Beaumont	324
		Bryan	177
New Mexico		Dallas	514
Albuquerque	2,454	Tyler	650
		Weslaco	144
New York		Utah	
New York City	3,000 plus	Salt Lake City	127
North Carolina		Virginia	
Asheville	554	Norfolk	451
Winston-Salem	443		
Ohio		Washington	
Cincinnati	2,049	Seattle	4,000
Columbus	1,363	Tacoma	600
Toledo	2,000 plus		

PREPARED STATEMENT OF RICHARD A. BARTON

Good morning, Mr. Chairman and Members of the Subcommittee. My name is Richard Barton and I am the Senior Vice President for Government Affairs of the Direct Marketing Association. I appreciate the opportunity to meet with you today to discuss the impact of fraud—specifically work at home schemes—on consumers and legitimate businesses.

As a representative of one of the most important segments of the American business community—direct response marketing my purpose today is to provide you with an understanding of the contributions direct response marketing has made to the American public and to describe the self-regulatory activities of the DMA and the direct marketing industry, particularly in the context of consumer education and protection.

Direct response marketing is an American tradition that dates back to 1774 with the publication of the first catalog by the well-known statesman Benjamin Franklin.

Franklin's promotional materials carried a guarantee that "those persons who live remote, by sending their orders and money to said B. Franklin, may depend on the same justice as if present." Modern direct marketers honor Franklin's tradition of customer satisfaction, aided by modern technology which allows them to target consumers with information about products and services of value to them.

Today, virtually all big businesses use direct response methods as a part of their marketing strategy. They include some of the best-known and most respected names in America: American Express, Walt Disney Productions, Colgate-Palmolive, AT&T, General Mills, Reader's Digest, IBM, Xerox, and major automobile manufacturers such as BMW and Toyota.

Direct response marketing also plays an important role in supporting the American political process. The ability to effectively communicate with the voting public by using direct response marketing methods is an integral component of today's successful political campaigns.

Presently, more than 101.5 million Americans rely upon the convenience and diversity of products available when shopping by phone or mail. Because of direct response marketing, consumers can select from thousands of essential, hard-to-find products and services in the comfort of their living rooms.

The Direct Marketing Association

The Direct Marketing Association is a trade association of more than 3,500 companies that utilize direct response advertising methods to market goods and services. The association was established in 1917. Members of DMA encompass all aspects of the American business community. Because con artists prey on our customers and negatively impact consumers regarding direct marketing, DMA has a deep and abiding interest in joining the fight against the small number of con artists that use direct marketing to defraud consumers.

Work at Home Opportunities

There are legitimate opportunities for professionals who are interested in home-based careers or working at home. Indeed, several of today's largest mail order companies began on the kitchen tables of enterprising young professionals interested in balancing the needs of the family and the need for financial freedom. Lillian Vernon, a multi-million dollar company based in New York is an excellent example. The company was started in the late 50's by Lillian Vernon, a young mother interested in supplemental income to support the needs of her young family.

Many business experts predict the home-based office may be the wave of the future. For business professionals, home-based careers offer valuable alternatives to the often conflicting demands of home and family, and the financial expense of starting a new business. Physically challenged and retired professionals often opt for the convenience of home-based careers as well.

Thousands of consumers are benefiting from home-based careers offering clerical support for large companies, including data entry. Multi-level marketing programs such as Shaklee, Inc., also offer opportunities for income while working out of the home. Many Fortune 500 companies employ home-based telephone sales representatives. Consumers with special skills such as sewing or needlework may also be prime candidates for home-based careers.

Work-at-Home Scams

However, there are many scams that prey on unknowledgeable people who are susceptible to claims that one can make easy money while working at home.

Con artists promoting work-at-home scams are successful because they prey on a basic human emotion—the need for financial success.

The more common, easily identifiable envelope stuffing scams are being replaced by more sophisticated ads for reading books or newspapers, taking pictures, making gift items, watching TV, developing mailing lists, mailing letters, and my personal favorite, eating at restaurants. Regardless of the offer, these advertisements use phrases such as:

ANYBODY CAN DO IT!

NO EXPERIENCE NEEDED!

**WORK IN THE COMFORT OF YOUR HOME IN YOUR SPARE TIME/-
SECRET PLAN FOR SUCCESS, AVAILABLE FOR A LIMITED TIME.
EARN THOUSANDS IN YOUR SPARE TIME!**

The ads commonly ask for money up front. The graphics for these ads often depict consumers holding a fistful of dollars and prominently feature pictures of luxury items. Consumers' testimonials detailing fabulous overnight success stories are another common feature of the deceptive work-at-home scam.

The Direct Marketing Association shares the concerns of those present today about deceptive work-at-home scams. We believe the most effective solution can be achieved through a combination of both regulation and self-regulation. The combination of self-regulatory methods, such as aggressive consumer education, and industry cooperation with state and Federal regulatory programs provide an excellent means by which success in curtailing consumer fraud can be achieved.

Self-Regulatory Activities

DMA is a recognized leader among consumer and regulatory agencies in self-regulation.

The concept of self-regulation is not new to the direct marketing industry. Indeed, one can argue that the adherence to self-regulatory concepts have played a key role in the prosperity that the industry enjoys today. To the direct marketing industry, self-regulation and adherence to ethical business standards are no longer moral concepts, but sound marketing concepts essential to the bottom line.

DMA's Guidelines for Ethical Practice and its companion booklets, the Guidelines for Personal Information Protection, Guidelines for Marketing by Telephone, Guidelines for the Acceptance of Print Advertising, Guidelines for Mailing List Practices, and the Guidelines for Broadcast Advertising, contain articles covering every aspect of a direct mail piece, from the development of a list, to the fulfillment of an offer.

DMA members believe that the advertising media have a responsibility to carefully monitor advertising for false, fraudulent, or misleading claims.

To this end we have published guidelines for the acceptance of direct response broadcast advertising and for print mail order advertising and made them part of our guidelines for mailing list practices.

The guidelines suggest that a broadcaster or publisher check more fully into questionable or highly inflated offers, check the reputation of the advertiser, and simply "follow your instincts" about the credibility of an offer. Our guidelines suggest strongly that the medium carrying the advertising also has a responsibility to its audience.

These guidelines were developed to exemplify the industry's commitment to conduct its business in an ethical manner. They are also meant as living documents to be utilized as part of a company's business philosophy.

Media guidelines are also included in the booklet "Misleading Advertisements" that we published jointly with the U.S. Postal Inspection Service. The pamphlet contains specific examples of suspicious advertisements.

Administration of the Guidelines

The Committee on Ethical Business Practice was established by the Direct Marketing Association in 1960 to investigate and examine mailings and offerings made throughout the direct marketing field. The Committee was charged with examining direct marketing mailings and offerings in an effort to increase good business practices throughout the industry and to provide for consumer protection.

During its history, the Committee has successfully applied the DMA Ethical Guidelines to hundreds of cases involving (but not limited to) such ethical issues as work-at-home scams, deception, unfair business practices and other ethics issues. In this way, the Committee works to counter ethical lapses in direct marketing that detract from the industry's image. Companies that are found to be in violation of the Guidelines are contacted by the Committee and given an opportunity to correct the solicitation or practice in question.

If the Committee feels a violation of law has occurred, the solicitation is referred to the appropriate state or Federal regulatory agency. In this way, the Committee works in cooperation with such agencies to protect consumers.

Ethics Policy Committee

The Ethics Policy Committee was established by the Board of Directors in 1976 to direct its attention to programs and projects relating to the advancement of the Direct Marketing Association and to strive for the advancement of ethical practices in the entire direct marketing arena.

The Committee also has the responsibility of reviewing and revising the DMA ethical guidelines as needed.

One of the most important programs developed by the Committee in recent years is the Dialogues Series. The Dialogues are meetings held twice a year in regional areas across the country between direct marketing professionals and consumer affairs regulatory officials from such organizations as the Postal Inspection Service, Federal Trade Commission, United States Office of Consumer Affairs, States Attorneys General and other state agencies, Better Business Bureaus, and others.

The meetings provide exceptional opportunities for the participants to discuss issues of mutual concern, and to work together to provide effective consumer and industry educational materials. As a result of the Dialogue program, DMA is currently, among other projects, developing a consumer educational booklet on sweepstakes advertising.

Mail Preference Service and Telephone Preference Service

DMA's Mail Preference Service (MPS) name removal file was established in 1971 in answer to increased consumer and regulatory concerns regarding personal privacy. A companion service, the Telephone Preference Service (TPS), was established in January, 1985, as an answer to increased consumer complaints and regulatory concerns regarding the usage of the telephone to market goods.

Marketers use the Mail Preference Service and the Telephone Preference Service for several reasons. The use of the services exemplifies the industry's respect for consumer privacy expectations and their wish to control their mail volume. The use of the service is also seen as a means to save valuable marketing dollars by removing unresponsive consumers from marketing lists.

Mail Order Action Line

Even in the best of companies, mail order complaints can occur. DMA's Mail Order Action Line was instituted in 1971 to act as an intermediary between consumers and direct marketing companies to insure that complaints are resolved in a timely manner. Since that time, the service has assisted over 300,000 consumers.

DMA Consumer Publications

In addition to its programs for industry professionals, the DMA also sponsors several consumer brochures. While not specific to work-at-home scams, these brochures provide consumers with balanced advice on shopping direct and protecting themselves against fraudulent promoters.

"Make Knowledge Your Partner in Mail Order Shopping" was written in cooperation with the Federal Trade Commission to educate consumers on making wise purchasing decisions. "Direct Marketing: Opening the Door to Opportunity" explains how marketing data is used for direct response promotions.

Conclusion

DMA recognizes that work at home scams are a serious problem for many consumers. We have worked with direct marketers, law enforcement officials, and consumer organizations to fight fraudulent work at home schemes as well as other frauds that prey on unsuspecting consumers.

We commend this subcommittee for its work in this area, and offer our services to strengthen both self-regulatory and legal regulatory programs to eliminate fraud.

PREPARED STATEMENT OF ALVIN F. LAMDEN

Mr. Chairman, I am Alvin F. Lamen, Manager of the Fraud and Prohibited Mailings Branch of the Postal Inspection Service. I am accompanied by Jennifer Y. Angelo, Chief Counsel for Consumer Protection. We are pleased to have this opportunity to discuss the current efforts of the United States Postal Service to combat work-at-home schemes.

The Postal Inspection Service is the investigative and audit arm of the U.S. Postal Service. There are 2,000 postal inspectors, who are responsible for protecting postal

employees, the mails and postal facilities from criminal attack, and for protecting the American public from being victimized by fraudulent schemes involving the mails. Under our duties as the Inspector General of the Postal Service we also are responsible for keeping postal management informed of operating conditions within the Postal Service and for protecting the Postal Service against fraud, waste and abuse. We have performed these duties for over two hundred years and are one of the oldest Federal law enforcement agencies.

We enforce a number of statutes which allow us to take action against fraudulent practices involving the use of the mails, including work-at-home schemes. Our primary weapons are two statutes originally enacted over a century ago: the Criminal Mail Fraud Statute (18 U.S.C. § 1341) and the Civil Postal False Representations Statute (39 U.S.C. § 3005).

The mail fraud statute makes it a felony to use the mails to intentionally defraud. Violators are subject to fines and imprisonment, and where the proceeds of the crime are used to further it or are concealed, we have authority under the Money Laundering Statutes (18 U.S.C. §§ 1956, 1957) to forfeit those proceeds or property they were used to acquire.

The false representations statute allows the Postal Service, after completing administrative proceedings, to return to the senders all mail sent in response to any false advertisement which seeks to obtain money or property by mail and to order the promoter to cease and desist. Failure to obey a cease and desist order can result in fines of \$10,000 per day (39 U.S.C. § 3012). Because these proceedings are time-consuming, two Federal injunction statutes allow us to take prompt, interim action against deceptive mail practices: one provides for a mail detention pending conclusion of the Administrative Litigation (39 U.S.C. § 3007); the other allows the Federal district courts to issue injunctions against the continuation of mail fraud schemes (18 U.S.C. § 1345). The former is used in civil proceedings, while the latter is based on reason to believe that criminal fraud is being, or about to be committed. In addition, two other statutes allow us to detain mail addressed to false or fictitious names or addresses used to conduct mail fraud schemes until the claimant identifies himself and proves his entitlement to the mail (39 U.S.C. §§ 3003, 3004).

Work-at-home promotions are among the most common and enduring forms of mail-order schemes. In times of higher unemployment more individuals become vulnerable to these promotions. We pursue these schemes under our civil statutes, and, when the circumstances of the case permit, we seek criminal prosecution as well. We also obtain voluntary discontinuance agreements from a large number of promoters. During the first half of this fiscal year we filed 24 civil complaints and obtained 23 cease and desist orders against work-at-home schemes. We have also obtained over 1,000 voluntary discontinuance agreements. We currently have 82 open investigations of work-at-home promotions.

A typical work-at-home promotion begins with a classified advertisement offering free information on how to earn hundreds or thousands of dollars weekly by working at home performing such duties as stuffing envelopes, assembling products, reading books, or typing. Individuals who request the free information are sent a circular, or given a telephone pitch, that describes the program in glowing terms, promising high incomes regardless of experience, and giving the impression that, for a fee, participants will receive all materials they need to immediately begin making money. The fees generally range from \$20 to \$50, but some more sophisticated programs can cost hundreds.

What consumers receive in exchange for their money varies, but these work-at-home programs are almost always a fraud: they do not generate the promised income, and frequently they require participants to invest substantial amounts of their own money, or to deceive others.

The most common work-at-home scheme is envelope stuffing. We are aware of no envelope stuffing promotion that ever produces substantial income. In practically all businesses, envelope stuffing has become a highly mechanized operation using sophisticated mass mailing techniques and equipment which eliminates any profit potential for an individual doing this type of work at home.

Nevertheless, promoters of these schemes advertise that participants can earn "hundreds weekly" stuffing envelopes, or \$3.00 per envelope stuffed. They represent that participants will be provided with all materials they need to earn these amounts; thus, most victims believe they will be sent envelopes to stuff and that their income will be limited only by the amount of time they want to spend stuffing envelopes.

Once victims have paid the \$20 or \$30 fee to participate, they receive no envelopes or any other materials. Instead, they receive a pamphlet, usually entitled "the complete home mailers program," which instructs them to place (and pay for) work-at-

home classified advertisements like the one that they responded to. The only way these victims get envelopes to "stuff" is to generate responses to those advertisements. Thus, the participant must essentially start his or her own business to obtain envelopes. Moreover, the only material stuffed into these envelopes is the circular describing the home mailers program. Thus, in most work-at-home schemes, there is never any product being sold other than the work-at-home program itself.

In one envelope stuffing case, the Postal Service worked with the United States Attorney in Brooklyn to freeze the assets of William Savran, whose corporation was bringing in \$50,000 a month. Savran's promotion was called "successful systems," and he charged his victims \$27 to participate. His solicitations offered a "revolutionary home-mailing program" paying "up to \$100 per single order." He promised "up to \$300.00" per day in earnings, even to people with "no special skills or previous experience." The only "product" Savran truly offered was participation in his work-at-home scheme—as in most envelope-stuffing schemes, the only way a participant could earn money was by deceiving others in the same manner that he or she had been deceived.

The District Court enjoined Savran from sending out mailings or advertisements in connection with the Successful Systems business, directed the Postal Service to return Savran's incoming mail to sender, and ultimately ordered that \$400,000 of Savran's assets be returned to Savran's victims. The Better Business Bureau of New York has taken on the task of executing those refunds.

We took criminal action against Eric P. Raynor last year. He sent direct mail advertisements falsely representing that he ran a loan company that needed to expand its business by reaching more potential borrowers. He offered to provide all supplies a person would need to stuff envelopes for him, and promised 50 cents per envelope stuffed, or an average of \$500.00 per week. Like many shady promoters, he told his customers, "this is not a get rich quick scheme, but an honest opportunity."

Mr. Raynor began by charging a registration fee of \$14, then, when his mail volume skyrocketed, adjusted it to \$49. When his incoming mail dropped he readjusted the price to \$24. We received over one thousand complaints; we estimate Mr. Raynor victimized over 15,000 people.

Mr. Raynor was arrested and charged with mail fraud in April of 1992. In May of this year he entered a guilty plea; sentencing is pending.

Other work-at-home schemes involve assembling or making products. We took criminal and civil action against one such scheme, in which Peter Ingram, under the name P & I Enterprises, induced people to send \$29 to \$80 for woodworking or jewelry kits. Ingram promised that home workers would earn \$216 to \$256 per week either assembling necklaces or carving wood blocks into cupids arrows. In fact, Ingram's assembly instructions were difficult to follow. Persons who attempted to follow them found that Ingram would reject the products they made, telling them they were flawed or otherwise incorrectly assembled. None of his home workers made money as promised.

The Postal Service law department filed a civil administrative complaint against Ingram, obtaining his agreement to cease and desist from the scheme. Ingram then pled guilty to state criminal charges, made restitution of \$57,300 to his victims, and was put on probation for 2½ years.

We recently put a halt to one of another breed of work-at-home schemes, run by Steve and John Morrison under the names "read a book" and American Marketing Concepts. Their initial classified advertisement read: "earn \$300 to \$500 per week reading books at home," and provided a long-distance number to call for information. Upon calling the number, consumers heard a pitch from a telemarketer saying that hundreds of publishing companies were hiring individuals to read and evaluate the large number of manuscripts they received. Telemarketers assured callers that American Marketing Concepts would help them get hired to work at home by these companies, and that the caller could even choose the type of material he or she was interested in reading. The fee for this service was \$30.00.

In exchange for their payment, consumers received a directory consisting of a brief description of the publishing business, tips on writing resumes and cover letters, and instructions on how to contact publishing companies to request free lance reading assignments. The bulk of the 40 page booklet contained names and addresses of publishing companies. When contacted, these companies told consumers and the Inspection Service that they did not hire free lance readers. Some had asked the Morrisons to remove their name from his directory, and they refused. And, while the Morrisons' telemarketers promised a refund to persons who did not get work reading books, they often abandoned this promise, insisting that dissatisfied customers had not invested enough effort in finding work.



After we filed a civil complaint against the Morrisons, and obtained a Federal Court injunction detaining their incoming mail, they agreed to discontinue their scheme. They also agreed to return their incoming mail to senders, make refunds to their victims, and to have a cease and desist order issued against them by the Postal Service judicial officer.

While work-at-home programs are as old as the hills, occasionally a new variation of the scheme enters the marketplace. Recently, we have begun to see more and more programs promising huge incomes from the "simple forms program." Advertisements promise earnings of \$25,000 a month for sitting at "your own kitchen table processing simple forms." The advertisement alludes to nothing more than clerical work, and gives the impression that the \$25 fee to participate in the program will pay for all necessary materials. However, instead of receiving instructions on processing simple forms, victims receive a booklet instructing them to produce (or reproduce) and package information on a marketable topic such as exercise or weight loss, and to market this information to the public. Processing forms is the smallest part of the program, and it occurs only after the participant spends substantial time, effort and money producing and marketing the information. The bulk of the "simple forms" booklet consists of questionable marketing techniques.

The Postal Service had proceeded against a number of promoters of the "simple forms program" under the false representations statute. Every case has resulted in an agreement in which the promoter agrees to discontinue the scheme.

A more sophisticated type of home employment scheme involves the sale of mail order business franchises. Last year we took action against Illinois promoter Larry Organ, who ran two simultaneous operations: in one, he offered computerized information matching college students to potential sources of scholarships, and in the other he induced individuals to pay \$489.00 to become licensed to market the scholarship information for him. He violated the false representation law in both schemes. His scholarship information was not what he had promised, and, in addition, he falsely represented to his licensees the amount of money they would earn, that he would limit the number of licensees who could sell in a given geographical area, and that he would refund the license fee to licensees who were not successful. The Postal Service filed an administrative action against Organ and his companies, and ultimately Organ agreed to stop falsely representing his programs. When he breached that agreement early this year, we filed an action and forced him to make refunds. Since that action, he has gone bankrupt and, as far as we know, ceased his business entirely.

Employment schemes other than work-at-home schemes are also commonly carried out through the mail, and are frequently the subject of postal false representation actions. Promoters of these schemes advertise jobs with the airlines, the Federal Government, the Postal Service or overseas companies. Frequently they word their advertisements to appear that they were placed by an actual employer. Instead of providing legitimate job applications for existing jobs, they send booklets of information listing potential employers and giving application, resume, job exam and cover letter advice. In many cases, the employers listed are not hiring at all, or do not have jobs in the locations promised in the advertisements. Job scheme operators charge \$20 to \$50 for this information, and their victims are those who can least afford it.

Mr. Chairman, I appreciate your concern about consumer fraud and your interest in legislative initiatives that could bolster our efforts to attack work-at-home and other employment schemes. To enable us to improve the use of our civil misrepresentation statute, we have recommended that we be given the authority to issue civil investigative demands for documents and testimony. The lack of such authority seriously hampers our ability to deal with some types of fraud schemes and delays our ability to obtain injunctions in many of our cases.

We have also sought an expansion of the false representation statute in a number of areas, for example:

- to permit us to seek immediate detention of mail administratively rather than going to District Court with the assistance of the U.S. Attorneys Office;
- to permit civil actions within three years of when a false representation scheme occurred;
- to permit District Courts to immediately enjoin all activity in furtherance of a false representation scheme, in addition to detention of incoming mail; and
- to expand jurisdiction of the statute to expressly authorize civil actions when credit cards or 900-numbers are used to obtain payment, as long as the mail is used in furtherance of the scheme.

S. 3376, introduced in the last Congress by Senator Pryor, contains these legislative changes, and others. That bill also strengthens provisions relating to advance fee loan schemes conducted through the mail, and to some extent overlaps with S. 279 the Advance Fee Loan bill that you have introduced. We appreciate your support for stronger laws against advance fee loan schemes.

We have supported congressional efforts to enact a private courier fraud statute separate from the mail fraud statute. Such legislation would prohibit the use of private courier services to avoid violations of the mail fraud statute, but it would not address that issue as part of 18 U.S.C. § 1341. We feel a separate statute addressing private courier service would best maintain the integrity of mail fraud precedents which are based on the Postal Service's government identity, while still making the substantive provisions of the Mail Fraud Law applicable to private couriers.

The Inspection Service and other law enforcement agencies could take action more quickly against fraudulent schemes if we were authorized direct access to telephone subscriber information from telephone companies and 800- and 900-number service bureaus. This would provide access comparable to that available under postal regulations, which grant public access to information on Post Office box applications when the applicant is doing business with the public. Currently, we need a subpoena to obtain this information from a telephone company. While subpoenas may be available in some cases, in civil investigations they are not; moreover, companies do not always comply with subpoenas.

Congress could also bolster the mail fraud statutes by requiring businesses using commercial mail receiving agencies to identify their addresses as boxes, and not as "suites" or "offices."

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions you may have.

**Earn up to \$1000 per week part time from home
Homeworkers needed nationwide
Big money weekly mailing circulars...**

Dear Friend,

How would you like to earn up to \$1000 weekly or more by simply securing envelopes, stuffing them with offers and returning them for payment?

Our firm specializes in the homework industry. We keep careful track of companies around the country who, because of timing, huge demand or massive marketing requirements, find themselves behind on getting their offers to the public. These companies could go out and hire a staff to do this job. The point is that many companies would rather save money, especially now. They would rather "FARM OUT" the work by piece to responsible people. Both the company in need and the individual benefit.

NOW YOU CAN EARN EXTRA MONEY IN YOUR SPARE TIME doing simple, pleasant work mainly consisting of stuffing envelopes at home! Firms pay you \$1 PER envelope you secure, stuffed with circulars and submitted according to instructions. Submit 20 envelopes and receive \$20. Submit 100 envelopes and receive \$100, and on and on!

NEVER BEFORE ANYTHING QUITE LIKE THIS! Be self-employed, yet have our guidance and instruction! No experience needed. We'll show you how to start and continue day after day. YOUR name never appears on any of the printed circulars. You will never stuff anything objectionable or pornographic.

NOW YOU ARE IN LUCK! We are one of the only mail order firms in the homework field that truly offers individuals like yourself the opportunity to stuff envelopes and get paid for each envelope you stuff! Not some kind of commission based on whether or not you receive orders - but simply \$1 for each and every envelope you secure stuffed with circulars and submitted according to instructions!

OUR SYSTEM OF STUFFING ENVELOPES IS VERY EASY TO OPERATE! You will not be required to buy any envelopes or postage stamps for mailing circulars. By following instructions you will receive pre-addressed envelopes with the postage stamps already affixed. As you can see, the biggest part of your work will be stuffing envelopes with circulars and sending them back for payment. We want you to work with us! We also want you to be happy and remain active for many years in this terrific program!

WHY DO WE NEED YOUR IMMEDIATE HELP? Answer: There are millions of people in the United States and Canada who firms would like to send their offers to, but could never reach all of them - even if they worked around the clock. However, by you and many others helping us from home by locally securing pre-stamped and addressed envelopes by mail from people in your own area or all over the country, firms are able to contact many thousands of prospects within a much shorter time.

You sign nothing. You work only the places or with the firms which you choose. You work wherever you choose. You quit anytime. Part-time or full-time. By following company policy you will be guaranteed payment on receipt of your work.

NATIONAL ENQUIRER

Business Opportunities

WE PAY UP TO \$300

weekly woodburning picture frames. Everything supplied. No experience or selling. Bay Frame, P.O. Box 1586, Jackson, TN 38302.

\$ MAKE OUR CRAFTS \$

\$526 per 152. At home, Rush SASE: Craftsco-E, Box 880, Gardnersville, NV, 89410.

\$100/HOUR AT HOME

possible! Start immediately. LSASE to: Liberty-E, Box 888, Seymour, IN 47274.

\$450 WEEKLY

possible making holiday decorations at home! Year-round opportunity. No experience. Rush SASE to: Holiday, Box 863786-E, San Francisco, CA 94188.

\$40,000/YR! READ BOOKS and some TV scripts. Fill out simple "like/don't like" form. Easy! Fun, relaxing at home, beach, vacations. Guaranteed paycheck. FREE 24 hour recording. 801-379-2925 Ext.

FAIRFAX (VA.) EXPRESS

075 MAIL ORDER
\$1000 WEEKLY STUFFING ENVELOPES
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42

July 27, 1993GLC: